Note: *The draft you are looking for begins on the next page.*

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Most forms and publications have a page on IRS.gov: IRS.gov/Form1040 for Form 1040; IRS.gov/Pub501 for Pub. 501; IRS.gov/W4 for Form W-4; and IRS.gov/ScheduleA for Schedule A (Form 1040), for example, and similarly for other forms, pubs, and schedules for Form 1040. When typing in a link, type it into the address bar of your browser, not a Search box on IRS.gov.

If you wish, you can submit comments to the IRS about draft or final forms, instructions, or pubs at IRS.gov/FormsComments. Include “NTF” followed by the form or pub number (for example, “NTF1040”, “NTFW4”, “NTF501”, etc.) in the body of the message to route your message properly. We cannot respond to all comments due to the high volume we receive and may not be able to consider many suggestions until the subsequent revision of the product, but we will review each “NTF” message. If you have comments on reducing paperwork and respondent (filer) burden, with respect to draft or final forms, please respond to the relevant information collection through the Federal Register process; for more info, click here.

2024

Department of the Treasury
Internal Revenue Service

Partnership Instructions for Schedules K-2 and K-3 (Form 1065)

TREASURY/IRS AND OMB USE ONLY DRAFT September 20, 2024

Partners' Distributive Share Items—International Partner's Share of Income, Deductions, Credits, etc.—International

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

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Future Developments

For the latest information about developments related to Schedule K-2 (Form 1065) and Schedule K-3 (Form 1065), and their instructions, such as legislation enacted after they were published, go to *IRS.gov/Form1065*.

What's New

Schedules K-2 and K-3, Part II, Section 1. Line 19 has been reserved for future use because a domestic partnership doesn't have a section 951(a) inclusion with respect to a foreign corporation for tax years of the foreign corporation that begin on or after January 25, 2022.

Schedules K-2 and K-3, Part IV, Section 1. Line 3 has been reserved for future use because a domestic partnership doesn't have a section 951(a) inclusion with respect to a foreign corporation for tax years of the foreign corporation that begin on or after January 25, 2022.

Schedules K-2 and K-3, Part VI. To be consistent with Form 8992, all entry lines for columns (h), (j), and (l) have been updated to include parentheticals and allow entries for zero and positive amounts.

Schedules K-2 and K-3, Part IX, Section 2, line 7. Cost sharing transaction payments under Regulations section 1.482-7(b)(1)(i) are now separately reported on line 7, and not in amounts reported on line 16.

Schedules K-2 and K-3, Part IX, Section 2, lines 17 and 18. Line 17 has been clarified to include amounts subject to tax under Regulations section 1.884-4(a)(2)(ii) at a 30% statutory rate. Similarly, line 18 has been clarified to include amounts subject to tax under Regulations section 1.884-4(a)(2)(ii) at a reduced rate pursuant to an income tax treaty.

Schedules K-2 and K-3, Part X, Section 1. Line 20 has been amended so that only income, not losses, is entered on that line.

Schedules K-2 and K-3, Part XII. Part XII has been added to provide information regarding a partnership that is, or has one or more branches that are, qualified derivatives dealers, as defined under the qualified intermediary agreement in Rev. Proc. 2022-43. In addition, number 12 of items C (Schedule K-2) and E (Schedule K-3) has been added to permit partnerships to indicate whether Part XII applies.

Schedule K-3, Part XIII, line 8. Line 8, Gain that would be recognized under section 897(g) on the deemed sale of section 1(h)(6) unrecaptured section 1250 gain assets, has been removed. Because this type of gain will result from the conduct of a U.S. trade or business, a partnership should instead include the gain on line 5 as aggregate effectively connected gain that would be recognized on the deemed sale of section 1(h)(6) unrecaptured section 1250 gain assets.

Domestic filing exception. A domestic filing exception that allows an exception for filing and furnishing Schedules K-2 and K-3 applies for 2024. See *Domestic Filing Exception*, later.

General Instructions

The Instructions for Form 1065 and Instructions for Schedule K-1 (Form 1065) generally apply to Schedules K-2 and K-3. These instructions provide additional information needed to complete Schedules K-2 and K-3 for tax years beginning in 2024. These

instructions apply to both the Schedules K-2 and K-3, unless otherwise noted.

Purpose of Schedules K-2 and K-3

Schedule K-2 is an extension of Form 1065, Schedule K, and is used to report items of international tax relevance from the operation of a partnership.

Schedule K-3 is an extension of Schedule K-1 (Form 1065) and is generally used to report to partners their shares of the items reported on Schedule K-2. Partners must include the information reported on Schedule K-3 on their tax or information returns, if applicable.

Who Must File

Any partnership required to file Form 1065 that has items relevant to the determination of the U.S. tax or certain withholding tax or reporting obligations of its partners under the international provisions of the Internal Revenue Code (the Code) must complete the relevant parts of Schedules K-2 and K-3. See each part and section for a more detailed description of who must file each part and section. Penalties may apply for filing Form 1065 without all required information or for furnishing Schedules K-3 to partners without all required information. The penalties that apply to Form 1065 and Schedule K-1 apply to Schedules K-2 and K-3, respectively. See *Penalties* in the Instructions for Form 1065.

Except as otherwise required by statute, regulations, or other IRS guidance, a partnership isn't required to obtain information from its direct or indirect partners to determine if it needs to file each of these parts.

A partnership is only required to complete and file the relevant portions of Schedules K-2 and K-3, as applicable. For example, if the partnership doesn't own (within the meaning of section 958) stock of a foreign corporation other than solely by reason of applying section 318(a)(3) (providing for downward attribution) as provided in section 958(b), it isn't required to complete Schedules K-2 and K-3, Parts V, VI, VII, and VIII.

Schedules K-2 and K-3 consist of the most common international tax provisions of the Code. However, not all provisions are specifically identified on these schedules. To the extent that an international provision is impacted and isn't otherwise specifically identified, the partnership should check box 13 on Schedule K-2, Part I, and Schedule K-3, Part I, and attach a statement to both Schedules K-2 and K-3 (for distributive share).

Note. A partnership that is, or has one or more branches that are, a qualified derivatives dealer (QDD), as defined under the qualified intermediary agreement (QIA) in Rev. Proc. 2022-43, 2022-52 I.R.B. 570 (QDD partnership), must file Form 1065 even if it wouldn't be required to file if it wasn't a QDD partnership. It must also complete Schedules K-2 and K-3, Part XII. If the QDD partnership is filing Form 1065 solely because it's a QDD partnership and wouldn't otherwise be required to file Form 1065, then the QDD partnership isn't required to complete Schedules K-2 and K-3 other than Schedule K-2, Parts B and XII, and Schedule K-3, Parts A through D and XII.

A partnership with no foreign source income, no assets generating foreign source income, no foreign partners, and no foreign taxes paid or accrued may still need to report information on Schedules K-2 and K-3. For example, if the partner claims a credit for foreign taxes paid or accrued by the partner, the partner may need certain information from the partnership to complete Form 1116, Foreign Tax Credit; or Form 1118, Foreign Tax Credit—Corporations. Also, a partnership that has only domestic partners may still be required to complete Part IX when the partnership makes certain deductible payments to foreign related parties of its domestic partners. The information reported in Part IX will assist any domestic corporate partner in determining the amount of base erosion payments made through the partnership, and in determining if the partners are subject to the base erosion and anti-abuse tax (BEAT). Further, if the domestic partnership with no foreign activity or foreign partners has direct or indirect domestic corporate partners, Part IV (concerning foreign-derived intangible income (FDII)) must be completed. A domestic or foreign publicly traded partnership (PTP) as defined in section 7704(b) with no foreign activity or foreign partners may need to complete Part XI. A QDD partnership must complete Part XII if it has foreign partners or is directly or indirectly owned by foreign persons (unless there is no ownership by foreign persons other than through domestic corporations), even if it has no foreign activity. See each part for applicability.

Example 1—Part IX required to determine base erosion payments. Foreign corporation wholly owns DC, a domestic corporation, and a foreign corporation (foreign subsidiary). DC satisfies the gross receipts test established by Regulations section 1.59A-2(d). In Year 1, DC owns a 50% interest in a domestic partnership, USP. An unrelated domestic corporation owns the remaining 50% interest in USP. DC's investment in USP doesn't qualify for the small partner exception defined in Regulations section 1.59A-7(d)(2).

In Year 1, USP pays the foreign subsidiary $100 for services. The services aren't eligible for the services cost method exception determined by Regulations section 1.59A-3(b)(3)(i). DC's distributive share of the $100 payment to the foreign subsidiary is $50.

For purposes of determining whether a payment or accrual by a partnership is a base erosion payment, any amount paid or accrued by USP is treated as paid or accrued by each partner based on the partner's distributive share of the item of deduction for that amount; see Regulations section 1.59A-7(d)(2). Therefore, DC is treated as having paid $50 to the foreign subsidiary.

DC must complete Form 8991, Tax on Base Erosion Payments of Taxpayers With Substantial Gross Receipts, to compute its base erosion minimum tax amount (if any); therefore, USP must complete the relevant portions of Schedules K-2 and K-3, Part IX.

Domestic Filing Exception (Exception to Filing Schedules K-2 and K-3)

A domestic partnership (as defined under sections 7701(a)(2) and (4)) doesn't need to (a) complete and file Schedules K-2 and K-3, or (b) furnish to a partner Schedule K-3 (except when requested by a partner after the 1-month date (defined in criteria number 4, below)) if each of the following four criteria are met during the partnership's 2024 tax year and the partnership isn't a QDD partnership.

1. No or limited foreign activity. During the domestic partnership's 2024 tax year, the domestic partnership either has no foreign activity (as defined below), or, if it does have foreign activity, such foreign activity is limited to (a) passive category foreign income (determined without regard to the high-taxed income exception under section 904(d)(2)(B)(iii)); (b) upon which not more than $300 of foreign income taxes allowable as a credit under section 901 are treated as paid or accrued by the partnership; and (c) such income and taxes are shown on a payee statement (as defined in section 6724(d)(2)) that is furnished or treated as furnished to the partnership.

Foreign activity. For purposes of the domestic filing exception, foreign activity means any of the following: (a) foreign income taxes paid or accrued (as defined in section 901 and the

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regulations thereunder); (b) foreign source income or loss (as determined in sections 861 through 865, and section 904(h), and the regulations thereunder); (c) ownership interest in a foreign partnership (as defined in sections 7701(a)(2) and (5)); (d) ownership interest in a foreign corporation (as defined in sections 7701(a)(3) and (5)); (e) ownership of a foreign branch (as defined in Regulations section 1.904-4(f)(3)(vii)); or (f) ownership interest in a foreign entity that is treated as disregarded as an entity separate from its owner (as defined in Regulations section 301.7701-3).

2. U.S. citizen/resident alien partners. During tax year 2024, all the direct partners in the domestic partnership are (a) individuals that are U.S. citizens; (b) individuals that are resident aliens (as defined in section 7701(b)(1)(A) and the regulations thereunder); (c) domestic decedents' estates (that is, decedents' estates that aren't foreign estates as defined in section 7701(a)(31)(A)), with solely U.S. citizen and/or resident alien individual beneficiaries; (d) domestic grantor trusts (that is, trusts described under sections 671 through 678) that aren't foreign trusts as defined in section 7701(a)(31)(B)) and that have solely U.S. citizen and/or resident alien individual grantors and solely U.S. citizen and/or resident alien individual beneficiaries; (e) domestic non-grantor trusts (that is, trusts subject to tax under section 641 that aren't foreign trusts as defined in section 7701(a)(31)(B) with solely U.S. citizen and/or resident alien individual beneficiaries; (f) S corporations with a sole shareholder; or (g) single-member limited liability companies (LLCs), where the LLC's sole member is one of the persons in subparagraphs (a) through (f), and the LLC is disregarded as an entity separate from its owner (as defined in Regulations section 301.7701-3).

3. Partner notification. A partnership that satisfies criteria 1 and 2, partners receive a notification from the partnership at the latest when the partnership furnishes the Schedule K-1 to the partner. The notice can be provided as an attachment to Schedule K-1. The notification must state that partners won't receive Schedule K-3 from the partnership unless the partners request the schedule.

4. No 2024 Schedule K-3 requests by the 1-month date. The partnership doesn't receive a request from any partner for Schedule K-3 information on or before the 1-month date. The 1-month date is 1 month before the date the partnership files the Form 1065. For tax year 2024 calendar year partnerships, the latest 1-month date is August 15, 2025, if the partnership files an extension. Any request from a partner for Schedule K-3 information for a year prior to tax year 2024 will be considered a request for a tax year 2024 Schedule K-3 as well.

Note. For partnerships that satisfy criteria 1 through 4, but receive a request after the 1-month date. If a partnership receives a request from a partner for Schedule K-3 information after the 1-month date for tax year 2024 and hasn't received a request from any other partner for Schedule K-3 information on or before the 1-month date, the domestic filing exception is met and the partnership isn't required to file the tax year 2024 Schedules K-2 and K-3 or furnish the tax year 2024 Schedule K-3 to the non-requesting partners. However, the partnership is required to provide the tax year 2024 Schedule K-3, completed with the requested information, to the requesting partner on the later of the date on which the partnership files Form 1065 or 1 month from the date on which the partnership receives the request from the partner. See *Example 4*, later. The partnership must complete and file tax year 2025 Schedules K-2 and K-3 for the requesting partner by the tax year 2025 Form 1065 filing deadline if that partner is still a partner in tax year 2025.

Note for partnerships that satisfy criteria 1 through 3, but don't satisfy criterion 4. If the partnership received a request from a partner for Schedule K-3 information on or before the 1-month date and therefore the partnership doesn't satisfy criterion 4, the partnership is required to file Schedules K-2 and K-3 and furnish Schedule K-3 to the requesting partner. Schedules K-2 and K-3 are required to be completed only for the parts and sections relevant to the requesting partner. For example, if a partner requests the information reported on Part III, Section 2, the partnership is required to complete and file Schedule K-2, Part III, Section 2, for the partnership's total assets and Schedule K-3, Part III, Section 2, for the requesting partner's distributive share of the assets. On the date that the partnership files Schedules K-2 and K-3, the partnership must provide a copy of the filed Schedule K-3 to the requesting partner. The partnership doesn't need to complete, attach, file, or furnish any other parts or sections of Schedules K-2 and K-3 to the IRS, the requesting partner, or any other partner. The partnership should keep records of the information requested by the partner. See *Example 3,* later.

If a partnership receives requests from partners for Schedule K-3 information both on or before the 1-month date and after the 1-month date, the partnership is required to file Schedules K-2 and K-3 as described in the prior paragraph only for the partner requests received on or before the 1-month date. For requests received after the 1-month date, the partnership is required to provide Schedule K-3, completed with that partner's requested information, on the later of the date on which the partnership files Form 1065 or 1 month from the date on which the partnership receives the request from the partner. See *Examples 3* and *4*, later.

Example 2—domestic filing exception met; issuance of Schedule K-3 not required. A married couple, U.S. citizens, each own a 50% interest in USP, a domestic partnership. USP and the married couple have a tax year end of December 31. USP invests in a regulated investment company (RIC). For tax year 2024, USP receives Form 1099 from the RIC reporting $100 of creditable foreign taxes paid or accrued on passive category foreign source income. USP doesn't have any foreign activity other than that from the RIC. The married couple receive notification from USP on an attachment to Schedule K-1 that they won't receive Schedule K-3 unless they request it. The married couple don't request Schedule K-3 from USP for tax year 2024. USP qualifies for the domestic filing exception, and, as such, USP doesn't need to complete Schedules K-2 and K-3.

Example 3—domestic filing exception not met. The facts are the same as in *Example 2*, except that each spouse owns a 40% interest in USP, and Kirby, a U.S. citizen, owns a 20% interest in USP. Kirby requests Schedule K-3 from USP for tax year 2024 and USP receives this request on February 1, 2025. After requesting an extension, USP files Form 1065 on August 31, 2025. USP doesn't qualify for the domestic filing exception because Kirby requested the Schedule K-3 by the 1-month date (July 31, 2025). As such, USP must complete and file the parts and sections of Schedules K-2 and K-3 that are relevant to Kirby. Regarding Schedules K-2 and K-3, USP doesn't need to complete, attach, or file any parts or sections relevant to the married couple. USP must provide a copy of the filed Schedule K-3 to Kirby on the date that USP files its Form 1065. USP doesn't need to furnish Schedule K-3 to the married couple.

Example 4—domestic filing exception met; Schedule K-3 issuance still required. The facts are the same as in *Example 3*, except that USP receives the request from Kirby on August 20, 2025. USP qualifies for the domestic filing exception because Kirby requested Schedule K-3 after the 1-month date. USP isn't required to file the tax year 2024 Schedules K-2 and K-3 or furnish Schedule K-3 to the married couple. However, USP is required to provide Schedule K-3, completed with the

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requested information, to Kirby on September 20, 2025, the later of the date on which USP files Form 1065 or 1 month from August 20, 2025. Because Kirby requested Schedule K-3 for tax year 2024, USP must file tax year 2025 Schedules K-2 and K-3 for the information requested by Kirby to the extent that Kirby is still a partner in tax year 2025.

Note. If a partnership doesn't meet the domestic filing exception, it may meet the Form 1116 exemption exception to filing Schedules K-2 and K-3.

When and Where To File

Attach Schedules K-2 and K-3 to the partnership's Form 1065 and file both by the due date (including extensions) for that return.

Provide Schedule K-3 to the partners of the partnership according to the timeline for providing Schedule K-1. See the Instructions for Form 1065.

Also, see the Instructions for Form 1065 for recordkeeping requirements and amendments or adjustments to Schedules K-2 and K-3.

Computer-Generated Schedules K-2 and K-3

If a computer-generated Schedule K-2 or K-3 conforms to and doesn't deviate from the official form and schedules, it may be filed with the IRS.

Important. Be sure to attach the approval letter to a computer-generated Schedule K-2 or K-3. However, if the computer-generated form is identical to the IRS prescribed form, it doesn't need to go through the approval process and an attachment isn't necessary.

Every year, the IRS issues a revenue procedure to provide guidance for filers of computer-generated forms. In addition, every year, the IRS issues Pub. 1167, General Rules and Specifications for Substitute Forms and Schedules, which reprints the most recent applicable revenue procedure. Pub. 1167 is available at *IRS.gov/pub/irs-pdf/p1167*. For purposes of Schedules K-2 and K-3, the procedures relevant to Form 1065 and Schedule K-1 (Form 1065) should be conformed with, to the extent possible.

How To Complete Schedules K-2 and K-3

Reporting currency. Report all amounts in U.S. dollars except where specified otherwise.

References to other forms. References in these instructions to Form 1040, U.S. Individual Income Tax Return, are intended, if applicable, to include Form 1040-SR, U.S. Tax Return for Seniors, as well as other tax returns for noncorporate partners such as Form 1041, U.S. Income Tax Return for Estates and Trusts. Similarly, references to Form 1120, U.S. Corporation Income Tax Return, are intended, if applicable, to apply to other forms in the 1120 series. References to forms which have been replaced are intended, if applicable, to include the replacement forms.

Uses of the parts of Schedules K-2 and K-3, in general.

Part I of Schedule K-2 (and Part I of Schedule K-3). Part I is used to report international tax items not reported elsewhere on Schedule K-2 or K-3.

Part II of Schedule K-2 (and Part II of Schedule K-3). Part II is used to figure the partnership's income or loss by source and separate category of income; and to report the partner's distributive share of such income or loss. Partners will use the information to figure and claim a foreign tax credit on Form 1116 or 1118.

Part III of Schedule K-2 (and Part III of Schedule K-3). Part III is used to report information necessary for the partner to determine the allocation and apportionment of research and experimental (R&E) expenses, interest expense, and the FDII deduction for purposes of the foreign tax credit limitation. Part III is also used to report foreign taxes paid or accrued by the partnership and the partner's distributive share of such taxes. Additionally, it's used to report income adjustments under section 743(b) by source and separate category. Partners will use the information to figure and claim a foreign tax credit on Form 1116 or 1118.

Part IV of Schedule K-2 (and Part IV of Schedule K-3). Part IV is used to report the information necessary for the partner to determine its section 250 deduction with respect to FDII. Partners will use the information to claim and figure a section 250 deduction with respect to FDII on Form 8993, Section 250 Deduction for Foreign-Derived Intangible Income (FDII) and Global Intangible Low-Taxed Income (GILTI).

Part V of Schedule K-2 (and Part V of Schedule K-3). Part V is used to report information the partner needs, along with other information known to the partner, to determine the amount of each distribution from a foreign corporation that's treated as a dividend or excluded from gross income because the distribution is attributable to previously taxed earnings and profits (PTEP) in the partner's annual PTEP accounts for the foreign corporation, and the amount of foreign currency gain or loss on the PTEP that the partner is required to recognize under section 986(c).

Partners will report the dividends and foreign currency gain or loss on Form 1040 or 1120. If eligible, partners will also use this information to figure and claim a dividends received deduction under section 245A on Form 1120.

Part VI of Schedule K-2 (and Part VI of Schedule K-3). Part VI is used to provide information the partner needs to determine any inclusions under sections 951(a)(1) and 951A. Partners will use the information to complete Form 8992, U.S. Shareholder Calculation of Global Intangible Low-Taxed Income (GILTI), and Forms 1040 and 1120 for subpart F income inclusions, including section 951(a)(1)(B) and section 951A inclusions.

Part VII of Schedule K-2 (and Part VII of Schedule K-3). Part VII is used to provide information needed by partners to complete Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, and to provide partners with information to determine income inclusions for the passive foreign investment company (PFIC).

Part VIII of Schedule K-2 (and Part VIII of Schedule K-3). Part VIII is used to provide the foreign corporation's net income in the income groups for purposes of the partner's deemed paid taxes computation for inclusions under sections 951A, 951(a)(1), and 1293(f). Partners will use the information to figure and claim a deemed paid foreign tax credit on Form 1118.

Part IX of Schedule K-2 (and Part IX of Schedule K-3). Part IX is used to provide information for the partner to figure its BEAT. Partners will use the information to complete Form 8991.

Part X of Schedule K-2 (and Part X of Schedule K-3). Part X is used to provide information for the partner to figure its tax liability for income effectively connected with a U.S. trade or business (ECI) or for fixed, determinable, annual, or periodical (FDAP) income. Partners will use the information to figure and report any U.S. tax liability on Form 1040-NR, U.S. Nonresident Alien Income Tax Return; and Form 1120-F, U.S. Income Tax Return of a Foreign Corporation, or other applicable forms.

Part XI of Schedule K-2 (and Part XI of Schedule K-3). Part XI is used to provide certain information to U.S. and foreign partners with respect to section 871(m) by a PTP that satisfies certain other requirements. Certain partners will use the information to determine their U.S. withholding tax obligations and to figure and report any U.S. tax liability on Form 1042, Annual Withholding Tax Return for U.S. Source Income of

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Foreign Persons; and Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding.

Part XII of Schedule K-2 (and Part XII of Schedule K-3). Part XII is used to provide information regarding the partnership's QDD activities. Certain partners may use this information to determine their U.S. tax liability or U.S. withholding tax obligations and to figure and report any U.S. tax liability on Form 1042-S.

Part XIII of Schedule K-3. Part XIII is used to provide information for a foreign partner to figure its distributive share of deemed sale items on a transfer of an interest in a partnership that is engaged in the conduct of a trade or business in the United States. Partners will use this information as follows. A partner that:

- Is a nonresident alien individual, foreign trust, or foreign estate completes Schedule P (Form 1040-NR), Foreign Partner's Interests in Certain Partnerships Transferred During Tax Year;
- Is a foreign corporation completes Schedule P (Form 1120-F), List of Foreign Partner's Interests in Partnerships, Parts IV and V;
- Is a foreign partnership completes Form 4797, Sales of Business Property; and Form 8949, Sales and Other Dispositions of Capital Assets, as needed; or
- Had an installment sale, see Form 6252, Installment Sale Income.

Specific Instructions

CAUTION *If the information required in a given section exceeds the space provided within that section, don't enter "See attached" in the section or leave the section blank. Instead, complete all entry spaces in the section and attach the remaining information on additional sheets. For all attachments, include the part, section, line number, and column of the relevant portions of Schedules K-2 and K-3. The additional sheets must conform to the IRS version of that section.*

Schedule K-2, Identifying Information

At the top of each new page, enter the name of the partnership and the employer identification number (EIN) of the partnership as they appear on Form 1065.

Item A—Withholding foreign partnership. If the partnership is a withholding foreign partnership under Rev. Proc. 2017-21, 2017-6 I.R.B. 791, check "Yes." Otherwise, check "No."

If "Yes," provide the partnership's withholding foreign partnership employer identification number (WP-EIN). Enter the partnership's WP-EIN regardless of whether the partnership filed this Form 1065 using its WP-EIN.

Item B—Qualified derivatives dealer (QDD). If the partnership (including the home office or any branch) is a QDD, check "Yes." Otherwise, check "No."

If "Yes," provide the partnership's qualified intermediary employer identification number (QI-EIN).

Item C—Part applicability. Check "Yes" to indicate the applicable parts of Schedules K-2 and K-3. Complete each applicable part.

Check "No" to indicate the inapplicable parts of Schedules K-2 and K-3. Don't complete, file, or attach to Form 1065 or Schedule K-3 the inapplicable parts.

Schedule K-3, Identifying Information

Items A and B. Items A and B should be the same as reported on Schedule K-1, Part I, items A and B.

Items C and D. Items C and D should be the same as reported on Schedule K-1, Part II, items E and F.

Item E. Item E should correspond to Schedule K-2, item C.

Schedule K-2, Part I (Partnership's Other Current Year International Information); and Schedule K-3, Part I (Partner's Share of Partnership's Other Current Year International Information)

Notes.

- Certain partners will use the information reported in the attachments for boxes 1 through 5 and 10 to claim and figure a foreign tax credit on Form 1116 or 1118.
- Certain partners will also use the information reported in the attachments for box 6 to prepare their tax returns (Forms 1040, 1120, 1040-NR, and 1120-F, as applicable) by taking into account that under section 267A they aren't allowed deductions for the amounts listed in the statement for box 6.
- Certain partners will use the information reported in attachments for boxes 8 and 9 to identify any international tax information reporting forms or other international tax forms that may impact the partners' tax returns.
- Certain partners may use the information reported in attachments for box 11 to determine any dual consolidated losses which may not be deducted on Form 1120.

This part is used to report information for international tax items not reported elsewhere on Schedule K-2. Check the box to indicate whether any of the following international tax items are applicable in the tax year. If applicable, attach statements, as described below, to Schedule K-2. If applicable, the partnership must also complete Schedule K-3, Part I, and include with Schedule K-3 the attachment(s) as described below with the partner's distributive share of the amounts.

Box 1. Gain on personal property sale. In general, income from the sale of personal property is sourced according to the residence of the seller; see section 865(a). For sourcing purposes, personal property sold by the partnership is treated as sold by the partners; see section 865(i)(5). A U.S. citizen or resident alien individual with a tax home (as defined in section 911(d)(3)) in a foreign country is treated as a nonresident with respect to the sale of personal property only if an income tax of at least 10% of the gain derived from the sale is actually paid to a foreign country for that gain; see section 865(g). In addition, with the exception of certain property sales, if a U.S. resident maintains an office or other fixed place of business in a foreign country, income from the sale of personal property attributable to such office or other fixed place of business is foreign source only if an income tax of at least 10% of the income from the sale is actually paid to a foreign country of such income; see section 865(e)(1).

If the partnership has income from the sale of personal property (other than inventory, depreciable personal property, and certain intangible property excepted from the general rule of section 865(a)); and the partnership pays income tax to a foreign country for income from the sale, or the income is eligible for re-sourcing under an applicable treaty, it must check box 1 and attach a statement to Schedules K-2 and K-3 (for distributive share) reflecting all the information shown in Table 1. Each item of property sold must be listed separately with the information shown in Table 1. The partnership may combine sales of stock property by country. Otherwise, don't combine sales of property. If the gain is capital, enter "long-term" or "short-term" in column (b). Enter the two-letter code from the list at *IRS.gov/CountryCodes* in column (f). Don't enter "various" or "OC" for the country code. If the property sale is taxed by more than one country, complete a separate line for that country, but indicate in some manner (for example, a footnote) that the property entered on both lines is the same property.

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Table 1. Information on Personal Property Sold (For use with Schedules K-2 and K-3 (Form 1065), Part I, box 1)

(a) Property description	(b) Long-term/ short-term	(c) Gains	(d) Amount of tax paid in local currency	(e) Amount of tax paid in U.S. dollars	(f) Taxing country (enter two-letter country code)

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Box 2. Foreign oil and gas taxes. A separate foreign tax credit limitation is applied to foreign oil and gas taxes. See section 907(a) and Regulations section 1.907(a)-1 for details. If the partnership has such taxes, it must check box 2 and attach a completed Schedule I (Form 1118), Reduction of Foreign Oil and Gas Taxes, to Schedules K-2 and K-3 (with the partner's distributive share). The partnership doesn't need to complete Schedule I (Form 1118), Part I, columns 12 and 13; or Part III, lines 1 and 3. The partnership must attach Schedule I (Form 1118) even if there are no corporate partners because the limitation applies to individuals eligible to claim a foreign tax credit.

The partnership attaches a partially completed Schedule I (Form 1118) so that the partner has the information it needs to complete Schedule I (Form 1118) or Form 1116. The partnership isn't attaching Schedule I (Form 1118) as a form required to be filed by the partnership for purposes of the partnership determining creditable taxes because a partnership can't claim a foreign tax credit.

Box 3. Splitter arrangements. Foreign income taxes from a foreign tax credit splitting event are suspended until the related income is taken into account by the taxpayer; see section 909. There is a foreign tax credit splitting event with respect to foreign income taxes of a payor if in connection with a splitter arrangement, as defined in Regulations section 1.909-2(b), the related income was, is, or will be taken into account by a covered person; see Regulations section 1.909-2(a). A covered person, as defined in Regulations section 1.909-1(a)(4), includes, for example, any entity in which the payor holds, directly or indirectly, at least a 10% ownership interest (determined by vote or value). A payor, as defined in Regulations section 1.909-1(a)(3), includes, for example, a person that takes foreign income taxes paid or accrued by a partnership into account pursuant to section 702(a)(6).

The partnership must report foreign income taxes that are potentially suspended on Schedule K-2, Part III, Section 4, line 2E, and each partner's share of such taxes on Schedule K-3, Part III, Section 4, line 2E. A partnership may not be able to determine whether taxes are suspended and whether related income is taken into account. However, when the partnership is able to determine that taxes are potentially suspended, or potentially unsuspended, it must report such taxes and the information requested in these instructions for box 3. For example, where a partnership owns a reverse hybrid and the foreign country assesses tax on the partnership for income earned by the reverse hybrid, the partnership should report such taxes as potentially suspended taxes.

Check box 3 and attach a statement to Schedules K-2 and K-3 that includes the following for each splitter arrangement in which the partnership participates that would qualify as a splitter arrangement under section 909 if one or more partners are covered persons of an entity that took into account related income from the arrangement.

Section 1 of attached statement—potentially suspended taxes.

- Explanation of the splitter arrangement (for example, reverse hybrid owned by the partnership).
- Amount of taxes paid or accrued by the partnership in connection with the splitter arrangement.
- Amount of related income on which such taxes were paid or accrued.
- The two-letter code for the country to which the taxes were paid or accrued from the list at *IRS.gov/CountryCodes*. Don't enter "various" or "OC" for the country code.
- The separate category and source of income to which the taxes are assigned if determinable by the partnership.

Section 2 of attached statement—potentially unsuspended taxes.

- Origin year of the splitter arrangement.
- Explanation of the splitter arrangement (for example, reverse hybrid owned by the partnership).
- Amount of taxes paid or accrued by the partnership in connection with the splitter arrangement in the origin year of the splitter arrangement.
- Amount of related income on which such taxes were paid or accrued in the origin year of the splitter arrangement.
- The two-letter code for the country to which the taxes were paid or accrued from the list at *IRS.gov/CountryCodes*. Don't enter "various" or "OC" for the country code.
- The separate category and source of income to which the taxes are assigned if determinable by the partnership.
- Amount of related income taken into account in the current tax year and the amount of taxes originally paid that relate to that portion of the related income if determinable by the partnership.

Box 4. Foreign tax translation. Check box 4 if the partnership reports any foreign taxes on Schedules K-2 and K-3, Part III, Section 4. Attach the statement described in the instructions for those sections to Schedules K-2 and K-3.

Box 5. High-taxed income. Check box 5 if the partnership has passive income and attach a statement to Schedules K-2 and K-3 with Worksheet 1 or Worksheet 2, or both, completed. The partner will use this information to determine whether its passive income is high-taxed passive income.

Income received or accrued by a U.S. person that would otherwise be passive income isn't treated as passive income if the income is determined to be high-taxed income; see section 904(d)(2)(B)(iii)(II). To determine if income is high-taxed income, a partner must group its shares of items of passive income from a partnership according to the rules in Regulations section 1.904-4(c)(3), except that the portion, if any, of the share of income attributable to income earned by a domestic partnership through a foreign qualified business unit (QBU) is separately grouped under the rules of Regulations section 1.904-4(c)(4); see also Regulations section 1.904-4(c)(5)(ii). For this purpose, a foreign QBU is a QBU (as defined in section 989(a)), other than a controlled foreign corporation (CFC) or noncontrolled 10%-owned foreign corporation, that has its principal place of business outside the United States; see Regulations section 1.904-4(c)(3).

Note. For purposes of the high-taxed income rules, passive income isn't treated as subject to a withholding tax or other foreign tax when a credit is disallowed in full for such foreign tax, for example, under section 901(k).

Worksheet 1 for Schedule K-2, Part I, Box 5

		I. Passive income net of allocable expenses	II. Taxes
A	Passive income subject to withholding tax of 15% or more		
B	Passive income subject to withholding tax of less than 15% but greater than zero		
C	Passive income not subject to any foreign tax		
D	Passive income subject to no withholding tax, but subject to other foreign tax		
Reference: Regulations section 1.904-4(c)(3).			

Worksheet 2 for Schedule K-2, Part I, Box 5

Name of foreign QBU:			
Complete a separate Worksheet 2 for each foreign QBU.		I. Passive income net of allocable expenses	II. Taxes
A	Passive income subject to withholding tax of 15% or more		
B	Passive income subject to withholding tax of less than 15% but greater than zero		
C	Passive income not subject to any foreign tax		
D	Passive income subject to no withholding tax, but subject to other foreign tax		
Reference: Regulations section 1.904-4(c)(4).			

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Example 5—Part I, box 5; high-taxed income. In Year 1, USP, a domestic partnership, has two domestic corporate partners with equal interests in the partnership. In Year 1, USP receives $100 of passive dividend income from a noncontrolled 10%-owned foreign corporation subject to a 15% withholding tax. USP also receives $150 of passive interest income from an unrelated person subject to a 30% withholding tax. USP incurs $80 of expenses that are allocable to the interest income. USP also receives $50 of passive dividend income from a CFC, which isn't subject to foreign tax. No expenses are allocable to the dividend income. USP's branch operation in Country X, treated as a QBU under section 989(a), receives $100 of passive dividend income subject to a 15% withholding tax. Finally, USP earns $400 of passive income from its branch operation in Country X. Such income is subject to foreign tax (but not withholding tax) of $40. Expenses of $120 are allocable to the distributive share of branch income. No expenses are allocable to the dividend income.

For Year 1, USP checks box 5 on Schedule K-2 (Form 1065), Part I, and attaches Worksheet 1 and Worksheet 2 to Schedule K-2.

Example 5. Worksheet 1

		I. Passive income net of allocable expenses	II. Taxes
A	Passive income subject to withholding tax of 15% or more	$170	$60
B	Passive income subject to withholding tax of less than 15% but greater than zero	0	0
C	Passive income not subject to any foreign tax	50	0
D	Passive income subject to no withholding tax, but subject to other foreign tax	0	0
Reference: Regulations section 1.904-4(c)(3).			

Example 5. Worksheet 2

Name of foreign QBU: Country X QBU			
Complete a separate Worksheet 2 for each foreign QBU.		I. Passive income net of allocable expenses	II. Taxes
A	Passive income subject to withholding tax of 15% or more	$100	$15
B	Passive income subject to withholding tax of less than 15% but greater than zero	0	0
C	Passive income not subject to any foreign tax	0	0
D	Passive income subject to no withholding tax, but subject to other foreign tax	280	40
Reference: Regulations section 1.904-4(c)(4).			

USP completes the same worksheets with the distributive shares and attaches those worksheets to each Schedule K-3 provided to the partners.

Box 6. Section 267A disallowed deduction. Check box 6 if the partnership paid or accrued any interest or royalty for which the partnership knows, or has reason to know, that one or more of its partners aren't allowed a deduction under section 267A. For additional information regarding section 267A, see the instructions for Form 1065, Schedule B, question 22, and FAQs for section 267A at *IRS.gov/businesses/partnerships/faqs-for-Form-1065-Schedule-B-Other-Information-Question-22*. For each partner that is disallowed a deduction under section 267A, the partnership should check box 6 in Part I of the specific partner's Schedule K-3 and attach to Schedule K-3 a statement titled "Section 267A Disallowed Deduction" that separately lists the following information.

- The amount of interest paid or accrued by the partnership for which the partner isn't allowed a deduction under section 267A.
- The amount of royalty paid or accrued by the partnership for which the partner isn't allowed a deduction under section 267A.
- The extent to which information reported on other parts of Schedule K-3 (for example, Part II, Section 2; or Part IX, Section 2) reflects interest or royalty for which the partner isn't allowed a deduction under section 267A.

CAUTION *When completing other parts of Schedules K-2 and K-3 (for example, Part II, Section 2; or Part IX, Section 2), list an amount without regard to whether the partner is disallowed a deduction under section 267A for the amount.*

Note for boxes 8 and 9. If the filer meets an exception, such as the multiple filer exception, to filing Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations; or Form 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, the filer isn't required to complete and attach those forms. However, the filer must still attach to Form 1065 any required statements to qualify for the exception to filing Form 5471 or Form 8865.

Box 8. Form 5471 information. Check box 8 and attach Form(s) 5471 to Form 1065 and Schedule K-1 (Form 1065) if either of the following applies.

- The partnership filed one or more Forms 5471.
- The partnership received Form(s) 5471 as an attachment to a Schedule K-3 issued to the partnership.

Form 5471 doesn't need to be attached to Schedule K-1 or K-3 if the partnership knows or has reason to know that its direct partner (and any indirect partners) doesn't need the information on Form 5471 to prepare its tax return. For example, the partnership wouldn't need to attach Form 5471 to Schedules K-3 for certain tax-exempt partners. A pass-through entity partner that receives Form 5471 with Schedule K-1 or K-3 must provide the relevant portions of Form 5471 to its partner unless the pass-through entity knows or has reason to know that its direct partner (and any indirect partners) doesn't need the information on the Form 5471 to prepare its tax return.

If a partner only needs certain information from Form 5471, the partnership need only attach that portion to Schedule K-3 and not the complete Form 5471.

Box 9. Other forms. Check box 9 and attach any applicable forms to Form 1065 and Schedule K-1 if any of the following apply.

- The partnership filed any other international tax forms.
- Another person filed these forms on behalf of the partnership.
- The partnership received these forms as an attachment to Schedule K-1 or K-3 issued to the partnership.

This includes, but isn't limited to, the following forms.

- Form 5713, International Boycott Report.
- Form 8833, Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b).
- Form 8621.

Exception for Form 8621. With respect to Schedule K-3, the partnership should check box 9 if the partnership checked box 9 on Schedule K-2. The partnership should indicate in an attachment to Schedule K-3 that Form(s) 8621 is attached to Schedule K-2. The partnership doesn't need to attach Form 8621 to Schedule K-1 or K-3.

Form 8990. If the partnership has filed Form 8990, check box 9 and provide on Schedule K-1 the information needed to complete Form 8990, Schedule A, for foreign partners which are required to report their distributive shares of excess business interest expense, excess taxable income, and excess business interest income, if any, that is attributable to income effectively connected with a U.S. trade or business. See the instructions for Schedule K-1 (Form 1065), box 20, code AY.

Withholding tax returns. Don't include any withholding tax returns required to be filed under chapters 3 and 4 (sections 1441 through 1474).

See *Other Forms, Returns, and Statements That May Be Required* in the Instructions for Form 1065.

TIP *If the partnership attached any of the forms identified in box 8 or 9 to Form 1065, the partnership doesn't need to attach them again to Schedule K-2.*

Box 10. Partner loan transactions. Check box 10 and attach a statement with the information in the applicable Table 2 or Table 3 if the partnership knows or has reason to know that it (a) received a loan from its partner (or a member of the partner's affiliated group) (downstream loan), as described in Regulations section 1.861-9(e)(8); or (b) loaned an amount to its partner (or a member of the partner's affiliated group) (upstream loan), as described in Regulations section 1.861-9(e)(9).

Downstream loans. On an attached statement, the partnership will provide the details for any downstream loans from its partner or a member of the partner's affiliated group, including the amount of interest expense paid or accrued by the partnership. Report the information on separate lines for each separate loan. The reporting should be as follows in Table 2.

Table 2. Downstream Loans

Name of lender	Lender's TIN	Date of loan	Amount of loan	Interest expense for the year

If there are any partners in the same affiliated group as the lender, attach to each of the Schedules K-2 and K-3 a statement that adds two separate columns for the partner's name and TIN.

Upstream loans. On an attached statement, the partnership will provide the details for any upstream loans to its partner or a member of the partner's affiliated group, including the amount of interest income received or accrued by the partnership. Report the information on separate lines for each separate loan. The reporting should be as follows in Table 3.

Table 3. Upstream Loans

Name of borrower	Borrower's TIN	Date of loan	Amount of loan	Interest income for the year

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If there are any partners in the same affiliated group as the borrower, attach to each of the Schedules K-2 and K-3 a statement that adds two separate columns for the partner's name and TIN.

Box 11. Dual consolidated loss. Check box 11 if either the reporting partnership (a) owns a foreign branch (as defined in Temporary Regulations section 1.367(a)-6T(g)) or an interest in a hybrid entity (as defined in Regulations section 1.1503(d)-1(b)(3)), or (b) is a hybrid entity (as defined in Regulations section 1.1503(d)-1(b)(3)). However, box 11 should only be checked if the reporting partnership knows that one or more of its direct or indirect partners are domestic corporations (other than a RIC, a real estate investment trust (REIT), or an S corporation). A domestic corporate partner's interest in the reporting partnership or its indirect interest in a foreign branch or hybrid entity may be treated as a separate unit and subject to the dual consolidated loss (DCL) rules pursuant to Regulations sections 1.1503(d)-1 through 1.1503(d)-8.

If box 11 is checked, a reporting partnership should include in attachments to the Schedule K-2 and the Schedules K-3 of a partner that is either a domestic corporation or a partnership the following.

- The foreign country in which each foreign branch is located.
- The foreign country in which each hybrid entity is subject to an income tax either on their worldwide income or on a residence basis.
- For each foreign branch and hybrid entity, including if the reporting partnership owns an interest in a partnership that owns a foreign branch or hybrid entity:

1. On Schedules K-2, separately state the net income or loss attributable to each direct and indirect foreign branch or hybrid entity of the partnership, as determined under Regulations section 1.1503(d)-5(c); and

2. On Schedule K-3, for each partner that is a domestic corporation or a partnership, separately state the partner's distributive share of the net income or loss of each direct and indirect foreign branch or hybrid entity of the partnership.

- Whether a foreign use (as described in Regulations section 1.1503(d)-3 and determined as if a net loss attributable to a partnership separate unit were a DCL) occurred during the tax year of a net loss of a partnership separate unit.
- Whether a transfer of assets (as described in Regulations section 1.1503(d)-6(e)(1)(iv)) or a transfer of an interest in a separate unit (as described in Regulations section 1.1503(d)-6(e)(1)(v)) occurred during the tax year of a foreign branch or hybrid entity.
- The organizational chart described in item 5 of Form 8858.
- If a foreign disregarded entity (FDE) made its election to be treated as disregarded from its owner during the tax year, whether the tax owner claimed a loss from stock or debt of the FDE as a result of the election.

Box 12. Schedule K-2 (Reserved for future use). Schedule K-3, Form 8865 information. If the partnership transferred property to a foreign partnership that would subject one or more of its domestic partners to reporting under section 6038B and Regulations section 1.6038B-2(a)(2) but didn't file Schedule O (Form 8865), Transfer of Property to a Foreign Partnership, with all the information required under Regulations section 1.6038B-2, about the transfer, then the partnership must provide the necessary information for each partner to fulfill its reporting requirements under Regulations section 1.6038B-2. The partnership should check box 12 on Schedule(s) K-3 and attach the relevant information, as applicable to each partner. Box 12 shouldn't be checked on Schedule K-2.

Box 13. Other international items. If the partnership has transactions, income, deductions, payments, or anything else that is impacted by the international tax provisions of the Code and such events aren't otherwise reported on this part or other parts of Schedules K-2 and K-3, report that information on a statement that is attached to Schedules K-2 and K-3 and check box 13.

Don't report any withholding tax returns required to be filed under chapters 3 and 4 (sections 1441 through 1474) in box 13. These forms are separately filed with the IRS.

Do report the following in box 13.

- Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation.
- Information a partner (whether direct or indirect) that is a U.S. shareholder of a CFC needs to complete Form 5471. For example, this would be necessary in the case that one or more partners is a CFC.
- Information a filer needs to complete Form 8865 to the extent that one of the partners (whether direct or indirect) is an entity for which there is a Form 8865 filing requirement.
- Information that a partner (whether direct or indirect) needs to complete Form 8858 for a foreign branch or FDE owned by the partnership, if section 987 is applied to the activities of the foreign branch or FDE using a method that requires the partner, rather than the partnership, to recognize section 987 gain or loss.
- If a partner in the partnership, whether direct or indirect, needs certain information regarding CFCs, foreign tax credits, or foreign parented multinational groups to determine the partner's liability under section 55(a)(2) and the information isn't specifically required to be reported on the Schedule K-3, such information should be provided by the partnership to the partner.
- Information regarding any top-up tax paid or accrued during the tax year by the partnership. See *Global Anti-Base Erosion (GloBE) Model Rules (Pillar Two) information for partners* below. For more information about reporting any top-up tax paid or accrued by certain entities or branches owned by the partnership, see the instructions for Schedule G (Form 5471), Schedules K-2 and K-3 (Form 8865), and Schedule G (Form 8858).
- Information regarding whether the partnership applied the temporary relief provided by Notice 2023-55, as modified by Notice 2023-80, to determine creditability of foreign taxes paid or otherwise required to be reported by the partnership. See *Temporary relief* below.

Global Anti-Base Erosion (GloBE) Model Rules (Pillar Two) information for partners. Certain jurisdictions have enacted legislation to implement the GloBE Model Rules for the income inclusion rule (IIR), qualified domestic minimum top-up tax (QDMTT), and UTPR. See the Organisation for Economic Cooperation and Development's (OECD) document, *Tax Challenges Arising from the Digitalisation of the Economy–Global Anti-Base Erosion Model Rules (Pillar Two) (Dec. 14, 2021)*. Under these rules, if the effective tax rate (ETR) for a jurisdiction is below 15%, top-up tax may be imposed. The amount of top-up tax is determined by multiplying the top-up tax percentage (the positive excess of 15% over the ETR in the jurisdiction) by the excess profits (the positive amount of the net GloBE income in such jurisdiction that exceeds a substance-based income exclusion). The top-up tax is collected under the QDMTT, IIR, and/or UTPR. If the partnership paid or accrued any top-up tax (or similar tax) during the tax year, attach a statement that separately lists the dollar amount of top-up tax paid or accrued for each of the following: (a) IIR (or similar taxes), (b) QDMTT (or similar taxes), and (c) UTPR (or similar taxes). See Table 4.

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Table 4. Top-Up Tax

Type of other international item	Other international item amount	Other international item explanation
GloBE QMDTT tax		Top-up tax
GloBE IIR tax		Top-up tax
GloBE UTPR tax		Top-up tax
GloBE total taxes		Top-up tax

Temporary relief. Final foreign tax credit regulations were published January 4, 2022. The new regulations made changes to the rules relating to the creditability of foreign taxes under sections 901 and 903. Notice 2023-55 was subsequently released on July 21, 2023, allowing taxpayers to apply prior rules in place of certain rules under the new regulations (temporary relief). The rules described in this Notice were modified in part by Notice 2023-80, released on December 11, 2023, to address their application to partnerships and their partners and to extend the relief period until further notice.

Notice 2023-80 clarified that the partnership makes the decision to apply (or not apply) the temporary relief to foreign taxes paid or otherwise required to be reported by a partnership, including foreign taxes paid by a CFC (collectively, the partnership's foreign taxes). A partnership that applies the temporary relief to a tax year must apply the temporary relief to all the partnership's foreign taxes. In addition, a partnership's choice to apply temporary relief for a tax year will generally cause a partner to be required to apply (or to be precluded from applying) the temporary relief for the relief year to all other foreign taxes for which the partner would be eligible to claim a credit as provided in section 901. For more information, see Treasury Decision 9959, 2022-03 I.R.B. 328, available at *IRS.gov/irb/2022–03_IRB#TD-9959*; Notice 2023-55, 2023-32 I.R.B. 427, available at *IRS.gov/irb/2023-32_IRB#NOT-2023-55*; and Notice 2023-80, 2023-52 I.R.B. 1584, available at *IRS.gov/irb/2023-52_IRB#NOT-2023-80*.

Attach a statement stating whether the partnership has applied temporary relief to the partnership's foreign taxes. See Table 5.

Table 5. Temporary Relief

Type of other international item	Other international item amount	Other international item explanation
Temporary relief	Yes/No	Temporary relief

Schedule K-2, Parts II and III; and Schedule K-3, Parts II and III

Certain partners will use the following information to claim and figure a foreign tax credit on Form 1116 or 1118. If the partnership doesn't qualify for the domestic filing exception, Schedules K-2 and K-3, Parts II and III, must be completed unless (a) the partnership doesn't have a direct or indirect partner that is eligible to claim a foreign tax credit, or (b) no direct or indirect partner would have to file Form 1116 or 1118 to claim the foreign tax credit.

Partners eligible to claim credit. A partner (including an indirect partner) that's eligible to claim a foreign tax credit includes a domestic corporation, a U.S. citizen or resident, U.S. citizen or resident beneficiaries of domestic trusts and estates, certain foreign corporations, and certain nonresident individuals. See sections 901 and 906. An indirect partner includes a partner that owns its share of the partnership through a pass-through entity (for example, a partnership, an S corporation, or a trust (see Regulations section 1.904-5(a)(4)(iv) for the definition of pass-through entity)). An indirect partner also includes a partner that owns the partnership through a foreign corporation.

Form 1116 exemption exception. Under section 904(j), certain partners aren't required to file Form 1116 (Form 1116 exemption). For more information, see *Foreign Tax Credit—How to Figure the Credit*. A domestic partnership isn't required to complete Schedules K-2 and K-3 if all partners are eligible for the Form 1116 exemption and the partnership receives notification of the partners' eligibility for such exemption by the 1-month date (as defined earlier). If a partnership receives notification from only some of the partners that they're eligible for the Form 1116 exemption, the partnership doesn't need to complete Schedule K-3 for those exempt partners but must complete Schedules K-2 and K-3 for the other partners to the extent that the partnership doesn't qualify for the domestic filing exception.

A partnership that doesn't have or receive sufficient information or notice regarding a direct or indirect partner must presume such partner is eligible to claim a foreign tax credit and such partner would have to file Form 1116 to claim a credit. As such, the partnership must complete Schedules K-2 and K-3, including Parts II and III, accordingly.

Example 6—Form 1116 exemption. A married couple, both U.S. citizens, each own a 50% interest in USP, a domestic partnership. The couple and USP each have a calendar tax year. USP invests in a RIC. USP receives Form 1099 from the RIC reporting $400 of creditable foreign taxes paid or accrued on passive category foreign source income. USP's only foreign activity is from the RIC. The married couple don't pay or accrue any foreign taxes other than their distributive share of USP's foreign taxes. They also don't have any other foreign source income. They qualify for the Form 1116 exemption and notify USP by the 1-month date that they don't need Schedule K-3. Even though USP doesn't qualify for the domestic filing exception because the creditable foreign taxes paid or accrued by USP are greater than $300, because the married couple notify USP by the 1-month date that they don't need Schedule K-3 under the Form 1116 exemption exception, USP doesn't need to complete Schedules K-2 and K-3.

Partnerships with no foreign partners and limited or no foreign activity. In many instances, a partnership with no foreign partners, no foreign source income, no assets generating foreign source income, and no foreign taxes paid or accrued may still need to report information on Schedules K-2 and K-3. For example, if the partner claims the foreign tax credit, the partner generally needs certain information from the partnership on Schedule K-3, Parts II and III, to complete Form 1116 or 1118. This information should have been reported in prior years, including before the Tax Cuts and Jobs Act of 2017, with Schedules K and K-1, and is information the partner needs to compute the foreign tax credit limitation, which determines the amount of foreign tax credit available to the partner. However, see *Domestic Filing Exception*, earlier.

Section 904 generally limits the foreign tax credit to the lesser of foreign taxes paid or accrued or the portion of U.S. tax liability attributable to foreign source taxable income. Foreign source taxable income is foreign source gross income less allocable expenses. In general, the partnership must complete Schedules K-2 and K-3, Parts II and III, because the partnership's gross income, gross receipts, expenses, assets, and foreign taxes may affect the foreign tax credit available to the partner. The source of certain gross income and gross receipts is determined by the partner. In addition, some expenses of the partnership are allocated and apportioned by the partner. Because of this partner determination, it isn't possible for the partner to assume that all income of the partnership is U.S. source and all expenses of the partnership reduce U.S. source income. Also, the

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allocation and apportionment of certain partner expenses take into account distributive shares of assets and income of the partnership that aren't otherwise reported in the specified format on the Schedule K-1.

For example, for sourcing purposes, personal property sold by the partnership is treated as sold by the partners; see section 865(i)(5). Generally, income from the sale of certain personal property (excluding, for example, inventory) is sourced according to the residence of the seller. In cases in which the partner is a pass-through entity, the partnership might not know the ultimate residence of the first non-pass-through partner. The partnership isn't required to separately state gain from the sale of personal property on Schedules K and K-1 because it is generally included in ordinary income. However, the gain is separately reported on Schedules K-2 and K-3, Part II.

As another example, Regulations section 1.861-17(f) provides the partner's R&E expenses (which include the distributive share of the partnership's R&E expenses) are allocated and apportioned by the partner. R&E expenses are allocated and apportioned based on the gross receipts by Standard Industrial Classification (SIC) code. R&E expenses by SIC code aren't required reporting on Schedules K and K-1 but are reported on Schedules K-2 and K-3, Part II. The partner needs Schedule K-3, Part III, Section 1, for the partner's share of the partnership's gross receipts by SIC code for purposes of allocating and apportioning R&E expenses.

In some cases, the partner will be able to use the information reported on Parts II and III to increase the foreign tax credit limitation and the amount of available foreign tax credit to the partner. For example, Part III, Section 2, provides the partner with the tax book value of the assets of the partnership. In general, a partner apportions interest expense to reduce U.S. source income or foreign source income based on the tax book value of its assets, including its distributive share of the partnership's interest expense and assets; see section 864(e)(2) and Regulations section 1.861-9(e). Taking into account the assets of a domestic partnership generating solely U.S. source income would result in more expense allocated to reducing U.S. source income and less expense allocated to reduce foreign source income. Additional foreign source income increases the partner's foreign tax credit limitation and the ability of the partner to claim foreign tax credits. The regulations provide exceptions to asset method apportionment for certain less-than-10% limited partners, and these instructions take this into account by excepting the partnership from completing certain portions of Schedules K-2 and K-3 for these partners. Schedules K and K-1 contain net amounts but don't include separately stated reporting for the partnership's interest expense for international tax reporting purposes, or the tax book value of the assets; see Regulations section 1.861-9(e)(4). See *Lines 39 and 40* and *Lines 41 through 43* under *Part II*; and *Section 2* under *Part III*, later, for further guidance.

Example 7—Parts II and III required for partnership with no foreign activity. U.S. citizens Kirby and Darby own equal interests in USP, a domestic partnership. USP has no foreign activity. In Year 1, Kirby pays $2,000 of foreign income taxes on passive category income other than capital gains reported to Kirby on a payee statement. Kirby has interest expense of $5,000, and USP doesn't have interest expense. None of Kirby's interest expense is directly allocable. Kirby doesn't have an overall domestic loss in tax year 2024.

Because Kirby must complete Form 1116 to claim a foreign tax credit, Kirby requests a Schedule K-3 by the 1-month date and, therefore, the domestic filing exception doesn't apply to USP with respect to Kirby. USP must complete the relevant portions of Parts II and III of Schedules K-2 and K-3 for Kirby. The tax book value of USP's assets is $100,000 (reported in Schedule K-2, Part III, Section 2, column (a)) and Kirby's share of those assets is $50,000 (reported in Schedule K-3, Part III, Section 2, column (a)). Not including Kirby's distributive share of the assets of USP, the tax book value of Kirby's assets is $50,000. Of Kirby's assets, $10,000 generates passive category foreign source income and $40,000 generates U.S. source income. Kirby has passive category foreign source taxable income before interest expense of $8,000. Kirby's U.S. tax rate is 25%. Kirby's interest expense and assets and USP's assets are characterized in the same category under sections 163 and 469 for purposes of Regulations section 1.861-9T(d). Kirby uses the tax book value (as opposed to the alternative tax book value) to allocate and apportion interest expense.

Kirby's interest expense is apportioned between U.S. source and foreign source income ratably based on the tax book value of Kirby's U.S. source and foreign source assets. Without taking into account the distributive share of USP's assets, the amount of Kirby's interest expense that would reduce passive category foreign source income is $1,000 ($5,000 x ($10,000/$50,000)). Therefore, Kirby's passive category foreign source taxable income would be $7,000 ($8,000 – $1,000). At a 25% U.S. tax rate, Kirby may only use $1,750 (25% (0.25) x $7,000) of the $2,000 of foreign taxes. See section 904.

Taking into account the distributive share of USP's assets, the amount of Kirby's interest expense that reduces passive category foreign source income is $500 ($5,000 x ($10,000/$100,000)). Therefore, Kirby's passive category foreign source taxable income would be $7,500 ($8,000 – $500). At a 25% U.S. tax rate, Kirby may use $1,875 (25% (0.25) x $7,500) of the $2,000 of foreign taxes—an additional foreign tax credit amount of $125 after taking into account Kirby's share of the tax book value of the partnership assets. Darby doesn't request a Schedule K-3 from USP for tax year 2024. Under the domestic filing exception, USP doesn't need to complete Schedule K-3 for Darby.

Example 8—Part II, not Part III, required for partnership with no foreign activity. The facts are the same as in *Example 7*, except that Kirby has $5,000 of deductions that aren't definitely related to any gross income as described in Regulations section 1.861-8(e)(9), and Kirby and USP have no other expenses. Further, Kirby's share of USP's gross income is $50,000. Not including Kirby's distributive share of the income of USP, Kirby's gross income is $50,000. Of Kirby's gross income, $5,000 is passive category foreign source gross income and $45,000 is U.S. source gross income. USP doesn't have any gross income the source of which is determined by the partner.

Kirby's expenses must be ratably apportioned based on Kirby's gross income (including its distributive share of the income of USP); see Regulations section 1.861-8(c)(3). Therefore, USP must complete Schedule K-2, Part II, and Schedule K-3, Part II, for Kirby. Before taking into account the distributive share of USP's gross income, the amount of Kirby's expenses described in Regulations section 1.861-8(e)(9) that reduce foreign source income is $500 ($5,000 x ($5,000/$50,000)). Therefore, Kirby's foreign source taxable income would be $4,500 ($5,000 – $500). At a 25% U.S. tax rate, Kirby may only use $1,125 (25% (0.25) x $4,500) of the $2,000 of foreign taxes. See section 904.

Taking into account the distributive share of USP's gross income, the amount of Kirby's expenses described in Regulations section 1.861-8(e)(9) that reduce foreign source income is $250 ($5,000 x ($5,000/$100,000)). Therefore, Kirby's foreign source taxable income would be $4,750 ($5,000 – $250). At a 25% U.S. tax rate, Kirby may use $1,187.50 (25% (0.25) x $4,750) of the $2,000 of foreign taxes in Year 1, which is an additional foreign tax credit amount of $62.50 after taking into account Kirby's distributive share of the gross income of USP.

Because Kirby and USP don't have R&E expenses or interest expense, and because USP didn't pay or accrue any foreign

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taxes, USP doesn't need to complete Schedules K-2 and K-3, Part III.

Note. A partner may need the distributive share of the partnership's gross income for purposes of allocating and apportioning expenses other than those described in Regulations section 1.861-8(e)(9).

General filing instructions. On Schedule K-2, Parts II and III, the partnership reports its gross income, gross receipts, cost of goods sold (COGS), certain deductions, and taxes by source and separate category. The partnership also reports information that the partner needs to allocate and apportion expenses and determine the source of certain items of gross income and gross receipts. Unless specifically noted below, the partnership reports on Schedule K-3, Parts II and III, the partner's share of the partnership's gross receipts, gross income, COGS, certain deductions, and taxes by source and separate category. The partner adds its share of the partnership's foreign source gross income, gross receipts, COGS, certain deductions, and taxes by separate category to its other foreign source gross income, gross receipts, COGS, certain deductions, and taxes in that separate category to figure its foreign tax credit. The partnership also reports on Schedule K-3 the distributive share of expenses and the allocation and apportionment factors so that the partner may determine expenses allocated and apportioned to foreign source income.

Partnership determination. The source and separate category of certain gross receipts, gross income, and COGS as well as the allocation and apportionment of certain deductions can be determined by the partnership. This includes deductions that are definitely related to certain gross income of the partnership; see Regulations section 1.861-8(b)(1). For examples of separate categories of income, see the following parts of Schedule K-2.

- Part II, columns (a) through (e).
- Part III, Section 1, columns (a) through (e).
- Part III, Section 3, columns (a) through (d).
- Part III, Section 5, columns (a) through (f).

In Part III, Section 2, columns (a) through (e), some partnership assets may be characterized by source and separate category by the partnership. This includes certain assets that attract directly allocated interest expense under Temporary Regulations sections 1.861-10T(b) and (c); see Temporary Regulations section 1.861-10T(d)(2).

In Part III, Section 4, in the U.S. and Foreign columns, the partnership assigns foreign income taxes paid or accrued to a separate category and source.

The partner's distributive share of the amounts determined by the partnership is reported in corresponding columns of Schedule K-3, Parts II and III.

Certain gross income, gross receipts, assets, COGS, deductions, and taxes aren't assigned to a source or separate category by the partnership. See *Partner determination*, later.

Schedule K-3. If the partnership knows that some of its partners are limited partners that own less than 10% of the value of the partnership and that don't hold their interests in the ordinary course of the partner's active trade or business, when completing Schedule K-3 for the less-than-10% limited partners, the partner's distributive share of the partnership's foreign source gross income and gross receipts should be reported as passive category income. Simultaneously, its deductions that have been allocated and apportioned to foreign source income should be reported as reducing passive category income; see Regulations section 1.904-4(n)(1)(ii)(A). For examples of where to report such information, see the following parts of Schedule K-3.

- Part II, column (c).
- Part III, Section 1, column (c).
- Part III, Section 3, column (b).
- Part III, Section 5, column (d).

Report the foreign taxes paid or accrued on foreign source income as passive category income in Part III, Section 4, column (d).

If the partnership meets the requirements to report the income as passive category income to some or all of the partners, the partnership doesn't need to complete Schedule K-3, Part III, Section 2, for these partners who meet the exception. See Regulations section 1.861-9(e)(4)(i).

Foreign branch category income. A domestic partnership itself doesn't have foreign branch category income. However, it reports all amounts that would be foreign branch category income of its partners as if all partners were U.S. persons that were not pass-through entities. For reporting examples, see the following parts of Schedule K-2.

- Part II, column (b).
- Part III, Sections 1 and 2, column (b).
- Part III, Sections 4 and 5, column (c).

The partner's distributive share of the amounts determined by the partnership is reported in corresponding columns of Schedule K-3, Parts II and III.

Schedule K-3. Any amounts reported on Schedule K-2 as foreign branch category income should be reported to foreign individuals and foreign corporations as general category income on the Schedule K-3, Parts II and III.

Section 901(j) income. Income derived from each sanctioned country is subject to a separate foreign tax credit limitation. If the partnership derives such income, enter code 901j on the line after category code in the following places of Schedule K-2.

- Part II, Sections 1 and 2, column (e).
- Part III, Sections 1 and 2, column (e).
- Part III, Section 3, column (d).
- Part III, Sections 4 and 5, column (f).

The partner's distributive share of the amounts determined by the partnership is reported in corresponding columns of Schedule K-3, Parts II and III. See the Instructions for Form 1118 for the potential countries to be listed with the section 901(j) category of income.

Note. As of the date of these instructions, section 901(j) is the only category reported on Part II, Sections 1 and 2, column (e); Part III, Sections 1 and 2, column (e); Part III, Section 3, column (d); and Part III, Section 5, column (f).

Section 951A category income. Section 951A category income is any amount of global intangible low-taxed income (GILTI) includible in gross income under section 951A (other than passive category income). If the partnership pays or accrues tax on the receipt of a distribution of PTEP assigned to the reclassified section 951A PTEP group or section 951A PTEP group, the partnership must assign those taxes to section 951A category income.

The partnership will enter such taxes in Part III, Section 4, column (b). This code isn't utilized in other portions of Parts II and III.

Income re-sourced by treaty. If a sourcing rule in an applicable income tax treaty treats any U.S. source income as foreign source, and there is an election to apply the treaty, the income will be treated as foreign source. This category applies if the partnership pays or accrues foreign income taxes on receipt of a distribution of PTEP that is sourced from an annual PTEP account that corresponds to the separate category relating to U.S. source income included under section 951(a)(1) or 951A and re-sourced as foreign source income under a treaty.

The designations below are only relevant for Part III, Section 4, column (f).

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- Code RBT PAS. If an applicable income tax treaty treats any U.S. source passive category income as foreign source passive category income, and there is an election to apply the treaty, enter "RBT PAS."
- Code RBT GEN. If an applicable income tax treaty treats any U.S. source general category income as foreign source general category income, and there is an election to apply the treaty, enter "RBT GEN."
- Code RBT 951A. If an applicable income tax treaty treats any U.S. source section 951A category income as foreign source section 951A category income, and there is an election to apply the treaty, enter "RBT 951A."

Partner determination. Enter the gross income, income adjustments, and gross receipts of the partnership that are required to be sourced by the partner on the following parts of Schedule K-2.

- Part II, Section 1, column (f).
- Part III, Section 1, column (f).
- Part III, Section 3, lines 1 and 2, column (e).
- Part III, Section 5, column (g).

This generally includes income from the sale of most personal property other than inventory, depreciable property, and certain intangible property sourced under section 865. This also includes certain foreign currency gain on section 988 transactions; see the instructions for Forms 1116 and 1118 and Pub. 514, Foreign Tax Credit for Individuals, for additional details. Attach a statement to Form 1065 to identify the separate category of income under section 904(d) of the amounts listed in Part II, Section 1, column (f).

Include deductions that are allocated and apportioned by the partner on the following parts of Schedule K-2.

- Part II, Section 2, column (f).
- Part III, Section 3, lines 3 and 4, column (e).

This includes most interest expense and R&E expenses. See Regulations sections 1.861-9(e) and 1.861-17(f).

Enter the assets that are assigned to a source and separate category by the partner in Schedule K-2, Part III, Section 2, column (f).

Enter the foreign income taxes that are assigned to a source of income by the partner on Schedule K-2, Part III, Section 4, in the Partner column. This includes taxes imposed on certain sales income.

The partner's distributive share of the amounts determined by the partnership is reported in corresponding columns of Schedule K-3, Parts II and III.

Schedule K-2, Part II; and Schedule K-3, Part II (Foreign Tax Credit Limitation)

Section 1—Gross Income (Lines 1 Through 24)

Section 1 generally follows the separately reported types of gross income and gross receipts on Form 1118, Schedule A. Individuals must follow the same sourcing rules, but Form 1116 only requires reporting of total gross income from foreign sources by separate category. Therefore, those required to file Form 1116 will report Schedule K-3, Part II, Section 1, line 24, by country on their Form 1116, Part I, line 1a. Additionally, Section 1 generally follows the types of gross income and gross receipts separately reported on Form 1065, Schedule K.

Form 1118, Schedule A, requires a corporation to separately report certain types of gross income and gross receipts by source and separate category. Separate reporting is required because each type of gross income and gross receipts has a different sourcing rule. See sections 861 through 865 (and section 904(h) and, in some cases, U.S. income tax treaties).

For each line in Schedules K-2 and K-3, Part II, Section 1, report the total for each country in column (g).

Country code. Forms 1116 and 1118 require the taxpayer to report the foreign country or U.S. territory from which the gross income and gross receipts are sourced. On Schedules K-2 and K-3, Part II, Section 1, lines 1 through 24, for each gross income and gross receipts item, enter on a separate line (A, B, or C) the two-letter code from the list at *IRS.gov/CountryCodes* for the foreign country or U.S. territory from which the gross income and gross receipts are sourced. If a type of income is sourced from more than three countries, attach an additional schedule with the same information required on Schedules K-2 and K-3, Part II, for that type of income.

If income is U.S. source, enter "US." Don't enter "various" or "OC" for the country code.

Note. For Part II, column (f), enter code "XX" if the partnership can't determine the country or U.S. territory that the gross income and gross receipts are sourced because the source is determined by the partner. However, don't enter code "XX" for Part II, column (f), if an income tax of at least 10% of the gain derived from the sale is actually paid to a foreign country for that gain; see sections 865(e) and (g). Instead, enter the foreign country to which the partnership paid the tax of at least 10% of the gain.

Each gross income and gross receipts item (for example, sales vs. interest income) may have different countries listed on lines A, B, C, etc., given that the partnership might not have sales income and interest income from the same country. Line 24 should combine each country's total income reported on Part II, regardless of the line on which such income is reported, whether A, B, C, etc.

Exceptions. The instructions for Forms 1116 and 1118 specify exceptions from the requirement to report gross income and gross receipts by foreign country or U.S. territory for RICs and section 863(b). See the instructions for Forms 1116 and 1118 for the exceptions that apply in completing Schedules K-2 and K-3, Parts II and III. Don't enter a foreign country or U.S. territory (to report on a country-by-country basis) for lines 16 through 18.

Schedules K-2 and K-3 request that gross income and gross receipts be reported by country or U.S. territory because such information is requested on Forms 1116 and 1118. Income and taxes are reported by country on Forms 1116 and 1118 so, for example, the IRS may initially evaluate whether taxpayers are claiming credits for compulsory payments to foreign governments.

Example 9—Part II: multiple country sources: gross income. In Year 1, USP, a domestic partnership, has employees who perform services in Country X and Country Y. USP earns $25,000 of general category services income, $10,000 within Country X and $15,000 within Country Y. The two-letter code for Country X is AA and the two-letter country code for Country Y is YY. USP makes the following entries on the first two lines of Schedule K-2, Part II, line 2.

Example 9 Table

Description	Foreign source
	(d) General category income
2 Gross income from performance of services	
A AA	$10,000
B YY	$15,000

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Lines 3 and 4. Rental income. These lines are reported separately because they're reported separately on Form 1065, Schedule K. The sourcing rule may be the same for both types of rental income.

Lines 7 and 8. Ordinary dividends and qualified dividends. Enter only ordinary dividends on line 7 and only qualified dividends on line 8. Don't include as ordinary dividends or qualified dividends the amount of any distributions received to the extent that they're attributable to PTEP in annual PTEP accounts of the partnership.

Note. The amount of distributions which are attributable to PTEP in annual PTEP accounts of a direct or indirect partner isn't determined by the partnership and therefore isn't taken into account for purposes of determining the ordinary dividends to be entered on line 7 or the qualified dividends to be entered on line 8.

Lines 11 through 15 and 27 through 30. Capital gains and losses. These lines generally match the types of gains and losses reported separately on Form 1065, Schedule K. Further, section 904(b)(2)(B) contains rules regarding adjustments to account for capital gain rate differentials (as defined in section 904(b)(3)(D)) for any tax year.

Example 10—Parts II and III: capital gains and losses. Partnership has the following amounts for tax year 2024.

Sources of Income for Example 10

	Short-term capital gains/losses
Total	$900
U.S. source	$1,000
Passive category (France)	$400
Passive category (Canada)	($300)
Passive category (Haiti)	($200)

Partnership reports these amounts on Schedule K-2, Part II, Section 1, line 11, as follows.

Example 10. Schedule K-2, Part II, Section 1, Line 11

Description	(a) U.S. source	Foreign source
		(c) Passive category income
11 Net short-term capital gains		
A US	$1,000	
B FR		$400
C CA		($300)
D HA		($200)

Line 12. Net long-term capital gain. On line 12, report net long-term capital gain, excluding amounts reported on lines 13, 14, and 15.

Line 13. Collectibles (28%) gain. Report collectibles gain on line 13 and not on line 12.

Line 14. Unrecaptured section 1250 gain. Report unrecaptured section 1250 gain on line 14 and not on line 12. If gain is both unrecaptured section 1250 gain and net section 1231 gain, report the gain on line 14 and not on line 15. Include an attachment indicating the amount of unrecaptured section 1250 gain that is also net section 1231 gain.

Line 15. Net section 1231 gain. Report net section 1231 gain on line 15 and not on line 12. If the amount is also unrecaptured section 1250 gain, see the instructions for line 14.

Lines 16 and 46. Section 986(c) gain and loss. Include the partnership's share of a lower-tier pass-through entity's section 986(c) gain or loss, and the amount of section 986(c) gain or loss on distributions of PTEP sourced from an annual PTEP account of the partnership. This isn't reported as a net amount but rather separate items. Enter total section 986(c) gains for the year on line 16. Enter total section 986(c) losses on line 46.

Note. A partnership is only responsible for computing and reporting foreign currency gain or loss under section 986(c) for distributed PTEP sourced from an annual PTEP account of the partnership. It isn't responsible for computing or reporting foreign currency gain or loss under section 986(c) for distributed PTEP sourced from an annual PTEP account of a direct or indirect partner.

Lines 17 and 47. Section 987 gain and loss. The source of section 987 gain or loss is generally determined by reference to the source of the income or asset giving rise to such gain or loss. A partnership may also obtain section 987 gain or loss information from Form 8858. This isn't reported as a net amount but rather separate items. Enter total section 987 gains on line 17. Enter total section 987 losses on line 47.

Lines 18 and 48. Section 988 gain and loss. The source of foreign currency gain or loss on section 988 transactions is generally determined by reference to the residence of the taxpayer or QBU on whose books the asset, liability, or item of income or expense is properly reflected. If the source is determined by reference to the residence of the taxpayer partner, report the section 988 gain and loss in column (f).

Line 20. Other income. Include other income by country and attach a statement to explain the type of other income for each line. If there are more than three types of other income by country, then attach a statement identifying these other types of income by country. For electronic filers, the rows will expand automatically. The statement must conform to the format of Part II.

Line 24. Total gross income. Enter the total gross income received from all sources on line 24. Then, add the gross income on lines 1 through 23 by country or territory and enter the total by country in rows A, B, and C (and additional rows if more than three countries). The sum of the amounts in rows A, B, C, etc., doesn't need to equal the amount on line 24, given that not every gross income amount is required to be reported by country.

Section 2—Deductions (Lines 25 Through 54)

Section 2 generally follows the separately reported types of deductions and losses on Form 1118, Schedule A. Individuals must generally follow the same expense allocation and apportionment rules, but Form 1116, Part I, only requires separate reporting of certain deductions by separate category. Additionally, Section 2 generally corresponds to the deductions separately reported on Form 1065, Schedule K.

Form 1118, Schedule A, requires a corporation to separately report certain types of deductions and losses by source and separate category. Separate reporting is required because each type of deduction may be allocated and apportioned according to a different methodology. See Regulations sections 1.861-8 through -20 and Temporary Regulations sections 1.861-8T and -10T for examples of the different allocation and apportionment rules. For purposes of allocating and apportioning expenses, in general, a partner adds the distributive share of the

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partnership's deductions to its other deductions; see Regulations section 1.861-8(e)(15).

Line 28. Net long-term capital loss. Report net long-term capital loss on line 28, excluding collectibles loss which is reported on line 29.

Line 29. Collectibles loss. Report collectibles loss on line 29 and not on line 28.

Line 32. R&E expenses. In column (f), enter the amount of R&E expenses associated with each SIC code. In general, R&E expenses are allocated and apportioned by the partner as provided in Regulations section 1.861-17(f). R&E expenses, as described in section 174, are ordinarily definitely related to gross intangible income reasonably connected with relevant broad product categories of the taxpayer and are allocable to gross intangible income as a class related to such product categories. The product categories are determined by reference to the three-digit classification of the Standard Industrial Classification Manual (SIC code); go to *osha.gov/data/sic-manual*.

Line 38. Charitable contributions. Enter charitable contributions in column (a). Regulations section 1.861-8(e)(12) provides that charitable contribution deductions are apportioned solely to U.S. source gross income.

Lines 39 and 40. Interest expense specifically allocable under Regulations section 1.861-10(e) and Temporary Regulations section 1.861-10T. On line 39, enter interest expense allocable under Regulations section 1.861–10(e).

On line 40, enter interest expense that is directly allocable under Temporary Regulations section 1.861-10T to income from specific partnership property. Such interest expense is treated as directly allocable to income generated by such partnership property. See Temporary Regulations section 1.861-9T(e)(1).

Lines 41 through 43. Other interest expense. A partner's distributive share of a partnership's interest expense that isn't directly allocable to income from specific partnership property is generally allocated and apportioned by the partner, subject to certain exceptions, and included in column (f); see Temporary Regulations section 1.861-9T(e)(1).

Interest expense incurred by certain individuals, estates, and trusts is characterized based on the categories of interest expense in sections 163 and 469: active trade or business interest, investment interest, or passive activity interest, adjusted for any interest expense directly allocated under Temporary Regulations section 1.861-10T; see Temporary Regulations section 1.861-9T(e). The amounts in each category of interest expense are reported on lines 41 through 43; see *Example 11*, later. Interest expense incurred by partnerships with only corporate partners isn't reported by the categories of interest expense in sections 163 and 469. All such interest expense may be reported as business interest expense on line 41.

Exception. For limited partners that each own less than 10% of the capital and profits interests of the partnership, and such interests aren't owned in the ordinary course of the partner's active trade or business, the partnership reports the partners' distributive shares of interest expense as reducing passive category foreign source income in column (c). However, if the partnership interest is held in the ordinary course of the partner's active trade or business, a partner's share of the partnership's interest expense (other than partnership interest expense that is directly allocated to identified property under Temporary Regulations section 1.861-10T) is apportioned in accordance with the partner's relative distributive share of gross foreign source income in each separate category and of gross domestic source income from the partnership in columns (a) through (e), as applicable. See Regulations sections 1.861-9(e)(4)(i) and 1.904-4(n)(1)(ii) for more information.

Exception. See Regulations sections 1.861-9(e)(8) and (9) for a special rule for partnership loans. See also *Box 10. Partner loan transactions*, earlier.

Interest expense is always included on lines 39 through 43 and not on other lines.

Line 45. Foreign taxes not creditable but deductible. See the instructions for Forms 1116 and 1118 for examples of foreign taxes that aren't creditable but deductible.

Foreign taxes that are creditable (even if a partner chooses to deduct such taxes) aren't reported as expenses on Part II. Creditable taxes are reported on Part III, Section 4.

Lines 49 and 50. Other deductions. Attach to Schedules K-2 and K-3 a statement describing the amount and type of other deductions. The statement must conform to the format of Part II.

Schedule K-2, Part III; and Schedule K-3, Part III (Other Information for Preparation of Form 1116 or 1118)

Section 1—R&E Expenses Apportionment Factors

This section requires the partnership to report information that a partner will use to allocate and apportion its R&E expenses for foreign tax credit limitation purposes.

A partnership isn't required to complete Section 1 of Part III unless either (a) the partnership incurs R&E expenses; or (b) the partner is expected to license, sell, or transfer its intangible property to the partnership (as provided in Regulations section 1.861-17(f)(3)).

Amortizable R&E expenditures, as described in section 174, are ordinarily definitely related to gross intangible income reasonably connected with relevant broad product categories of the taxpayer and are allocable to gross intangible income as a class related to such product categories. The product categories are determined by reference to the three-digit classification of the SIC code. In general, R&E expenses are apportioned based on gross receipts. Under Regulations section 1.861-17(f)(1), R&E expenses incurred by the partnership are allocated and apportioned by the partner. This requires that the partnership report to its partners the gross receipts by SIC code according to source and separate category of income. This also requires that the partnership report the amount of R&E expenses performed in the United States and outside the United States to apply exclusive apportionment; see Regulations section 1.861-17(f)(2).

Column (e). Other. As of the date of these instructions, the only separate category that could be included in column (e) is the section 901(j) category of income. See the Instructions for Form 1118 for the potential countries to be listed with the section 901(j) category of income.

Line 1. Gross receipts by SIC code. Enter the gross receipts by SIC code for each grouping. Such gross receipts include both the partnership's gross receipts and certain other parties' gross receipts. Sales of parties controlled by the partnership should be included on line 1 if such controlled parties can reasonably be expected to benefit from the R&E expenses connected with the product categories. This includes sales that benefit from the partner's R&E expenses if licensed through the partnership. Sales of uncontrolled parties are also taken into account if such sales involve intangible property that was licensed or sold to the uncontrolled party if the uncontrolled party can reasonably be expected to benefit from the R&E expenses. See Regulations sections 1.861-17(d)(3) and (4) for more information on uncontrolled and controlled parties.

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Line 2. Exclusive apportionment with respect to total R&E expenses entered on Part II, line 32. On line 2A, report the amount of R&E expenses related to activity performed in the United States by SIC code. On line 2B, enter the amount of R&E expenses related to activity performed outside the United States by SIC code.The total of the amounts on Schedule K-2, Part III, Section 1, line 2, must equal Schedule K-2, Part II, line 32.

Similarly, the total of the amounts of each partner's Schedule K-3, Part III, Section 1, line 2, must equal Schedule K-3, Part II, line 32.

Note. Line 2 isn't reported according to source or separate category.

Note. The SIC code for line 2B(i) doesn't need to be the same SIC code for line 2A(i).

Section 2—Interest Expense Apportionment Factors

This section requires the partnership to report information that a partner will use to allocate and apportion its interest expense for foreign tax credit limitation purposes.

Complete this Section 2 only if the partnership or the partners have interest or stewardship expenses.

Stewardship expenses. In the case of the partner's stewardship expenses incurred to oversee the partnership, the partnership's value is determined and characterized under the asset method in Regulations section 1.861-9 (taking into account any adjustments under sections 734(b) and 743(b)); see Regulations section 1.861-8(e)(4)(ii)(C). Therefore, the Part III, Section 2, instructions for interest expense apportionment factors apply generally to the partner's stewardship expense apportionment.

For corporate partners with an interest in the partnership of 10% or more, interest expense, including the partner's distributive share of partnership interest expense, is apportioned by reference to the partner's assets, including the partner's share of partnership assets; see Regulations section 1.861-9(e)(2). Interest expense is apportioned based on the average value of assets; see Regulations section 1.861-9(g)(2)(i)(A). A taxpayer can use either the tax book value or the alternative tax book value to determine the value of its assets; see Regulations section 1.861-9(i). Under both methods, the partner uses the partnership's inside basis in its assets, including adjustments required under sections 734(b) and 743(b); see Regulations sections 1.861-9(e)(2) and (3). When reporting the basis in an asset which is stock in nonaffiliated 10%-owned corporations, adjust such amount for earnings and profits (E&P). See Regulations section 1.861-12(c)(2)(i)(A).

Note. Attach to Form 1065 a second Part III, Section 2, if the partnership reports both the tax book value and the alternative tax book value of its assets to the partners.

Column (b). Foreign branch category income. The partnership characterizes its share of the partnership assets that give rise to foreign branch category income as assets in the foreign branch category. See Regulations section 1.861-9(e)(10).

Line 1. Total average value of assets. On Schedule K-2, report the average of the beginning-of-year and end-of-year inside bases in the partnership's total assets; see Regulations section 1.861-9(g)(2)(i)(A). Include on line 1 assets without directly identifiable yield referred to in Temporary Regulations section 1.861-9T(g)(3)(iii).

On Schedule K-3, report the partner's distributive share of the assets reported on Schedule K-2.

Line 2. Sections 734(b) and 743(b) adjustment to assets—average value. On Schedule K-2, report the partnership's average of the beginning-of-year and end-of-year inside bases adjustments under sections 734(b) and 743(b).

On Schedule K-3, report the partner's distributive share of the adjustments reported on Schedule K-2.

Lines 3 and 4. Assets and other assets attracting directly allocable interest expense under Regulations section 1.861-10(e) and Temporary Regulations section 1.861-10T. On Schedule K-2, report reductions in the partnership's asset values to reflect the partnership's directly allocable interest under Regulations section 1.861-10(e) and Temporary Regulations section 1.861-10T; see also Temporary Regulations section 1.861-9T(e)(1).

On Schedule K-3, report the partner's distributive share of the reductions in the partnership's assets.

Line 5. Assets excluded from apportionment formula. On Schedule K-2, report the average value of partnership assets excluded from the apportionment formula; see section 864(e)(3). Include on line 5 assets without directly identifiable yield referred to in Temporary Regulations section 1.861-9T(g)(3)(iii).

On Schedule K-3, report the partner's distributive share of the excluded assets reported on Schedule K-2.

Line 6. Total assets used for apportionment. Individual partners who are (a) general partners, (b) limited partners with an interest in the partnership of 10% or more, or (c) limited partners with an interest in the partnership of less than 10% but hold such interest in the ordinary course of the partner's active trade or business follow the same rules as corporate partners whose interest in the partnership is 10% or more except that their interest expense must be apportioned according to the interest expense classifications under sections 163 and 469 as provided by Regulations section 1.861-9(e). Additionally, they must apportion their interest expense according to Temporary Regulations section 1.861-9T(d). This includes reporting the assets according to such classifications. If the partnership has no such partners, the partnership doesn't need to complete Schedule K-2, Part III, Section 2; or Schedule K-3, Part III, Section 2. The partnership includes the total amount on line 6a.

Line 6a is the sum of lines 1 and 2 less the sum of lines 3, 4, and 5. Line 6a is divided into the types of assets on lines 6b, 6c, and 6d if the partnership has individual, estate, and certain trust partners (whether direct or indirect through a pass-through entity).

Example 11—Parts II and III: asset method apportionment of interest expense. Kendall, a U.S. citizen, has a 10% interest in USP, a domestic partnership. USP is engaged in the active conduct of a U.S. trade or business. USP's business generates only domestic source income. USP also has an investment portfolio consisting of several less-than-10% stock investments. USP has a bank loan. The proceeds of the bank loan were divided equally between the business and the investment portfolio. Kendall's only assets attracting interest expense are those owned by USP. Kendall's only business assets and investment assets are its distributive share of those owned by USP. Kendall's only interest expense is that from its distributive share of USP's interest expense.

Kendall's share of the interest expense for the loan for USP's business is $2,000. It is apportioned on the basis of business assets. Because all business income is domestic source, the business assets are domestic assets and reported in Schedules K-2 and K-3, Part III, Section 2, line 6b, column (a). Kendall's $2,000 share of the interest expense is reported in

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Schedule K-3, Part II, line 41, column (f). It is apportioned to U.S. source income by the partner.

The interest expense for Kendall's share of the loan for USP's investments is $2,000 and is reported in Schedule K-3, Part II, line 42, column (f). The investment interest must be apportioned on the basis of investment assets. Applying the asset method, $80,000 of USP's adjusted basis in its investment portfolio stock generates domestic source income and $120,000 of USP's adjusted basis in the stock generates foreign source passive income. USP reports these amounts in Schedule K-2, Part III, Section 2, line 6c, columns (a) and (c), respectively. Kendall's distributive share of the adjusted basis in USP's stock is $8,000 for the stock generating domestic source income and $12,000 for the stock generating foreign source passive income. Such amounts are reported in Schedule K-3, Part III, Section 2, line 6c, columns (a) and (c), respectively. With respect to the interest expense on the loan for USP's investments, $800 (($8,000/$20,000) x $2,000) is apportioned to domestic source income and $1,200 (($12,000/$20,000) x $2,000) is apportioned to foreign source passive income.

Schedule K-3. If the partnership's partners aren't limited to corporate partners, when completing Schedule K-3, Part III, Section 2, for the corporate partners with an interest of 10% or more in the partnership, don't complete lines 6b through 6d. Include the total distributive share on line 6a.

Lines 7 and 8. Basis in stock of 10%-owned noncontrolled foreign corporations and of CFCs. The amounts reported on lines 7 and 8 are subsets of the amounts reported on line 6 representing the value of stock held by the partnership in certain foreign corporations. In determining its foreign tax credit limitation, a partner should disregard interest expense that is properly allocable to stock of a 10%-owned foreign corporation that has been characterized as a section 245A asset; see section 904(b)(4) and Regulations section 1.904(b)-3(a)(1)(ii). The amount of properly allocable deductions is determined by treating the section 245A subgroup for each separate category as a statutory grouping for purposes of allocating and apportioning interest deductions on the basis of assets. Assets in a section 245A subgroup only include stock of a specified 10%-owned foreign corporation that has been characterized as a section 245A asset.

The stock is characterized as a section 245A asset to the extent it generates income that would generate a dividends received deduction under section 245A if distributed. This doesn't include income that is included as GILTI, subpart F income, or a section 951(a)(1)(B) inclusion or income described in section 245(a)(5) (which gives rise to a dividends received deduction under section 245 instead of section 245A).

In the case of a specified 10%-owned foreign corporation that isn't a CFC, all of the value of its stock is potentially in a section 245A subgroup because the stock generally generates dividends eligible for the section 245A deduction (and can't generate an inclusion under section 951(a)(1) or 951A(a)), if the partner meets the requirements for eligibility; see Regulations section 1.904(b)-3(c)(2). However, because the partnership may not have the information to determine if a partner is eligible for a section 245A deduction (for example, due to tiered ownership), the partner must determine to what extent the stock is treated as an asset in a section 245A subgroup.

For a partnership-owned specified 10% foreign corporation that isn't a CFC, the partnership will report on line 7, columns (a) through (e), the total value of the stock in all such foreign corporations. The value of the stock is the partnership's basis in the stock adjusted to take into account the E&P of the foreign corporations as explained in Regulations section 1.861-12(c)(2). The partnership must attach a statement to Schedules K-2 and K-3 with the following information for each foreign corporation for which adjusted basis is reported on line 7.

- Name of foreign corporation.
- EIN or reference ID number. Don't enter "FOREIGNUS" or "APPLIED FOR."
- Percentage of voting and value of stock owned by partnership in such foreign corporation.
- Value of the stock in such corporation included in each of the groupings on lines 6b through 6d (identify separately each of those groupings).

If the specified 10%-owned foreign corporation is a CFC, a portion of the value of stock in each separate category and in the residual grouping for U.S. source income is subdivided between a section 245A and a non-section 245A subgroup under the rules described in Regulations section 1.861-13(a)(5).

However, because the partnership will generally not have the information to apply the stock characterization rules described in Regulations section 1.861-13(a)(5), the partner must apply those rules to characterize the stock.

For partnership-owned CFCs, the partnership will report on line 8, column (f), the total value of its stock in all such foreign corporations. The value of the stock is the partnership's inside basis in the stock adjusted to take into account the E&P of the foreign corporations as explained in Regulations section 1.861-12(c)(2). The partnership must attach a statement to Schedules K-2 and K-3 with the following information for each foreign corporation for which basis is reported on line 8.

- Name of foreign corporation.
- EIN or reference ID number. Don't enter "FOREIGNUS" or "APPLIED FOR."
- Percentage of voting and value of stock owned by the partnership in such foreign corporation.
- Value of the stock in such corporation included in each of the groupings on lines 6b through 6d (identify separately each of those groupings).

Section 3—Foreign-Derived Intangible Income (FDII) Deduction Apportionment Factors

Don't complete this Section 3 if the partnership knows that it has no domestic corporate partners (whether direct or indirect).

This section requires the partnership to report information that its partners will use to determine the source and separate category of its income so that the partners can allocate and apportion the FDII deduction under section 250(a)(1)(A) for foreign tax credit limitation purposes. The deduction is definitely related and allocable to the class of gross income included in the partner's foreign-derived deduction eligible income (FDDEI) (as defined in section 250(b)(4)) and is apportioned within the class, if necessary, ratably between the statutory grouping (or among the statutory groupings) of gross income and the residual grouping of gross income based on the relative amounts of FDDEI in each grouping; see Regulations section 1.861-8(e)(13).

If a partner is a member of a consolidated group, see Regulations section 1.861-14(e)(4) for specific allocation and apportioning rules.

Lines 1 and 2. Report the partnership's foreign-derived gross receipts and COGS, respectively, by source and separate category.

Lines 3 and 4. Report the partnership's deductions allocable to foreign-derived gross receipts and other partnership deductions apportioned to foreign-derived gross receipts, respectively; see Part IV, Section 2, lines 11 and 12. Although these deduction amounts are necessary to figure the partner's FDII deduction, once this amount is determined, the actual FDII deduction itself

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is allocated and apportioned as described in Regulations section 1.861-8(e)(13).

Column (d). Other. As of the date of these instructions, the only separate category that could be included in column (d) is the section 901(j) category of income. See the Instructions for Form 1118 for the potential countries to be listed with the section 901(j) category of income.

Section 4—Foreign Taxes

Don't complete this Section 4 if the partnership doesn't pay or accrue foreign income taxes that are creditable under section 901 or 903.

In Part III, Section 4, the partnership assigns foreign income taxes paid or accrued (including on U.S. source income) to a separate category and source. Include taxes paid or accrued to foreign countries or to U.S. territories.

Attachment. As previously mentioned in the instructions for Schedules K-2 and K-3, Part I, box 4, for each of the amounts listed in lines 1 through 3, attach to the Schedules K-2 and K-3 a statement reporting the following information.

- The dates on which the taxes were paid or accrued.
- The exchange rates used.
- The amounts in both foreign currency and U.S. dollars. See section 986(a).

Column (a). Enter the code for the type of tax.

Codes for Types of Tax

Code	Type of tax
WHTD	Withholding tax on dividends
WHTP	Withholding tax on distributions of PTEP
WHTB	Withholding tax on branch remittances
WHTR	Withholding tax on rents, royalties, and license fees
WHTI	Withholding tax on interest
ECI	Taxes paid or accrued to foreign countries or territories on certain effectively connected income
OTHS	Other foreign taxes paid or accrued on sales income
OTHR	Other foreign taxes paid or accrued on services income
OTH	Other foreign taxes paid or accrued

If there are multiple types of tax for the same country, generate multiple alpha rows for the same country, one row for each type of tax. For example, see below.

Example of Multiple Types of Income for the Same Country

Description	(a) Type of tax
1 Direct (section 901 or 903) foreign taxes: Paid Accrued	
A AA	WHTD
B AA	OTH

Column (b). Section 951A category income. Taxes assigned to section 951A category income are taxes paid or accrued on distributions of PTEP assigned to the reclassified section 951A PTEP and section 951A PTEP groups. A partnership might not be able to complete this column due to lack of information regarding the treatment of the current year distributions.

Column (f). Other category.

Foreign taxes paid or accrued to sanctioned countries. No credit is allowed for foreign taxes paid or accrued to certain sanctioned countries.

Foreign taxes related to PTEP re-sourced by treaty. If the partnership pays or accrues foreign income taxes on receipt of a distribution of PTEP that is sourced from an annual PTEP account that corresponds to the separate category relating to U.S. source income included under section 951(a)(1) and re-sourced as foreign source income under a treaty, such taxes are included in column (f).

On the line after category code, enter one of the following codes.

- Code RBT PAS. If an applicable income tax treaty treats any U.S. source passive category income as foreign source passive category income, and there is an election to apply the treaty, enter “RBT PAS.”
- Code RBT GEN. If an applicable income tax treaty treats any U.S. source general category income as foreign source general category income, and there is an election to apply the treaty, enter “RBT GEN.”
- Code RBT 951A. If an applicable income tax treaty treats any U.S. source section 951A category income as foreign source section 951A category income, and there is an election to apply the treaty, enter “RBT 951A.”

Line 1. Direct (section 901 or 903) foreign taxes. Enter in U.S. dollars the total foreign income taxes (described in section 901 or 903) that were paid or accrued by the partnership (according to its method of accounting for such taxes). Don't include reductions or redeterminations, as they will be addressed on other lines. If a partnership applies temporary relief provided by Notice 2023-55, include on line 1 the foreign taxes that are foreign income taxes under temporary relief. See the instructions for Part I, box 13, for additional information.

Note. Don't include on line 1 any foreign income taxes not creditable but deductible as reported on Part II, Section 2, line 45.

If the partnership uses the cash method of accounting, check the “Paid” box and enter foreign income taxes paid during the tax year on line 1. Report each partner's share on Schedule K-3, Part III, Section 4, line 1.

If the partnership uses the accrual method of accounting, check the “Accrued” box and enter foreign income taxes accrued on line 1. Report each partner's share on Schedule K-3, Part III, Section 4, line 1.

Note. Check only one box, “Paid” or “Accrued,” depending on the method of accounting the partnership uses to take into account foreign income taxes.

Enter on a separate line, indicated by the letters A through F, taxes paid or accrued to each country. Enter the two-letter code from the list at *IRS.gov/CountryCodes*. Don't enter “various” or “OC” for country code.

Exceptions. The instructions for Forms 1116 and 1118 specify exceptions from the requirement to report gross income and gross receipts by foreign country or U.S. territory for RICs and section 863(b). These exceptions apply as well to reporting of taxes in this section.

Example 12—Part III, Section 4: multiple country sources: foreign taxes. The facts are the same as in *Example 9*, earlier. USP uses the cash method of accounting and pays income taxes of $1,000 and $3,000 to Countries AA

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and YY, respectively. USP completes Part III, Section 4, line 1, as follows.

Example 12 Table

Description	(a) Type of tax	(e) General category income
		Foreign
1 Direct (section 901 or 903) foreign taxes: ☑ Paid ☐ Accrued		
A AA	OTHR	$1,000
B YY	OTHR	$3,000

Line 2. Reduction of taxes (total). Enter on line 2, as negative number, the sum of the taxes in the following categories.

- Taxes on foreign mineral income (section 901(e)).
- Taxes attributable to boycott operations (section 908).
- Reduction in taxes for failure to timely file (or furnish all of the information required on) Forms 5471 and 8865 (section 6038(c)).
- Foreign income taxes paid or accrued during the current tax year with respect to splitter arrangements under section 909.
- Foreign income taxes on foreign corporate distributions. For example, report taxes on dividends eligible for a deduction under section 245A and ineligible for credit under section 245A(d). Also, include taxes on a distribution of PTEP assigned to the following PTEP groups: reclassified section 965(a) PTEP, reclassified section 965(b) PTEP, section 965(a) PTEP, and section 965(b) PTEP, a portion of which isn't creditable. The partnership may be unable to determine the amount of a distribution that is attributable to non-previously taxed E&P or PTEP for which a foreign tax credit may be partially or entirely disallowed. However, it is important to track this amount as a tax on a distribution.
- Other. Attach a statement to Schedules K-2 and K-3 indicating the reason for the reduction.

Don't report amounts on line 2 by country.

Line 3. Foreign tax redeterminations. Enter in U.S. dollars the change in foreign tax as a result of a foreign tax redetermination as provided in section 905(c) and Regulations sections 1.905-3 through -5. If the amount is less than the original foreign tax, report the change as a negative amount. If the amount is more than the original foreign tax, report the change as a positive amount.

Exception. Partnerships subject to subchapter C of chapter 63 of the Code (BBA partnerships) are generally required to file an administrative adjustment request (AAR) under Regulations section 1.905-4(b)(2)(ii) to account for a foreign tax redetermination. If an AAR is filed for a foreign tax redetermination (or if an AAR will be timely filed), don't report the foreign tax redetermination on line 3.

Report the U.S. tax year to which the foreign income tax relates. This is the U.S. tax year that includes the close of the foreign tax year to which the tax relates. Also, report the date on which the tax was paid. If there is more than one date tax is paid, enter one of the dates paid on the schedule itself and then attach to the Schedules K-2 and K-3 a statement including all of the information reported on the schedule with the other dates paid.

If there is more than one redetermination in a year with respect to different countries, report such redeterminations on separate lines. Enter the two-letter code from the list at *IRS.gov/CountryCodes*.

Exceptions. The instructions for Forms 1116 and 1118 specify exceptions from the requirement to report gross income and gross receipts by foreign country or U.S. territory for RICs and section 863(b). Don't enter "various" or "OC" for the country code.

Similarly, if there is more than one redetermination in a year for the same country, but the redeterminations are related to different years, report such redeterminations on separate lines.

In addition, if the direct or indirect partners are corporations, attach a statement that includes the information on Schedule L (Form 1118), Parts I and II, as applicable, for each foreign tax redetermination. If the direct or indirect partners are individuals, estates, or trusts, attach a statement that includes the information on Schedule C (Form 1116), Parts I and II, as applicable, for each foreign tax redetermination. If the indirect partners are unknown, attach a statement that includes both the information on Schedule L (Form 1118), Parts I and II, as applicable, and Schedule C (Form 1116), Parts I and II, as applicable.

Note. Payment of additional foreign income taxes that relate to an earlier tax year by a partnership that uses the cash method of accounting doesn't result in a foreign tax redetermination; see Regulations section 1.905-3(a). Such amounts should be reported on line 1 as foreign income taxes paid by the partnership in the current year.

Contested taxes. In general, for purposes of Regulations section 1.905-1, a contested foreign income tax liability doesn't accrue until the contest is resolved and the amount of the liability has been finally determined. In addition, a contested foreign income tax liability isn't a reasonable approximation of the final foreign income tax liability and, therefore, isn't considered an amount of tax paid for purposes of section 901 until the contest is resolved. Under Regulations section 1.905-1(f)(2), a partnership generally isn't allowed to take into account a contested liability as a creditable foreign tax expenditure until the contest is resolved and the liability has been paid. However, to the extent that a partnership has remitted a contested foreign income tax liability to a foreign country, partners may elect to claim a provisional foreign tax credit for their distributive shares of such contested foreign income tax liability.

Partnerships that are contesting a foreign income tax liability with a foreign country but that have remitted all or a portion of such contested liability should report information about the contested tax on line 3 and check the "Contested tax" box. In addition, partnerships should attach a statement and include information necessary for partners to complete Form 7204 and Schedule L (Form 1118) (for direct or indirect corporate partners), or Schedule C (Form 1116) (for direct or indirect individual, trust, or estate partners), including a description of the contest and a description of the contested foreign income tax. If it is unknown whether the partners are corporations, individuals, estates, or trusts, provide the information necessary for the partners to complete both Schedule L (Form 1118), Parts I and II (as applicable), and Schedule C (Form 1116), Parts I and II (as applicable).

Partnerships must also file a statement each year for which there are one or more contested liabilities outstanding or in which a contested tax is resolved that includes information necessary for partners to complete both Schedule L (Form 1118), Part V, and Schedule C (Form 1116), Part V.

Section 5—Other Tax Information

This section provides other tax information that a partner needs to figure its foreign tax credit limitation.

Column (b). Don't report any amounts in this column.

Column (f). Other. As of the date of these instructions, this column will only include the section 901(j) category and the countries relevant to that category. See the Instructions for Form

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1118 for the potential countries to be listed with the section 901(j) category of income. No credit is allowed for taxes paid or accrued to a country described in section 901(j). However, a deduction is generally allowed for a tax described in section 901(j).

Line 1. Section 743(b) positive income adjustment. For partnerships other than PTPs, report the total of all partners' shares of the net positive income adjustments resulting from all section 743(b) basis adjustments. Net positive income adjustments from all section 743(b) basis adjustments means the excess of all section 743(b) adjustments allocated to the partner that increase the partner's taxable income over all section 743(b) adjustments that decrease the partner's taxable income.

Attach to Schedules K-2 and K-3 a statement showing each section 743(b) basis adjustment making up the total and identify the assets to which it relates and the separate category and source of the income generated by the assets. Make sure to include the class of gross income or deduction, for example, sales income, interest income, or depreciation deduction. The partnership may group these section 743(b) basis adjustments by asset category or description in cases where multiple assets are affected if the assets generate the same separate category and source of income. The section 743(b) positive income adjustments should be included as relevant on other parts of Schedule K-2. For example, the section 743(b) income adjustments should be reflected as part of the total depreciation reported on Part II, Section 2.

Line 2. Section 743(b) negative income adjustment. For partnerships other than PTPs, report the total of all partners' shares of the net negative income adjustments resulting from all section 743(b) basis adjustments. Net negative income adjustments from all section 743(b) basis adjustments means the excess sum of all section 743(b) adjustments allocated to the partner that decrease the partner's taxable income over all section 743(b) adjustments that increase the partner's taxable income. Attach to Schedules K-2 and K-3 a statement showing each section 743(b) basis adjustment making up the total and identify the assets to which it relates and the separate category and source of the income generated by the assets. Make sure to include the class of gross income or deduction, for example, sales income, interest income, or depreciation deduction. The partnership may group these section 743(b) basis adjustments by asset category or description in cases where multiple assets are affected if the assets generate the same separate category and source of income. The section 743(b) negative income adjustments should be included as relevant in other parts of Schedule K-2. For example, the section 743(b) income adjustments should be reflected as part of the total depreciation reported on Part II, Section 2.

Schedule K-2, Part IV (Information on Partners' Section 250 Deduction With Respect to Foreign-Derived Intangible Income (FDII)); and Schedule K-3, Part IV (Information on Partner's Section 250 Deduction With Respect to Foreign-Derived Intangible Income (FDII))

Note. Certain partners will use the following information to claim and figure a section 250 deduction for FDII on Form 8993.

This part is used by the partnership to report information to a direct domestic corporate partner (other than REITs, RICs, and S corporations) or to a partner that is a partnership that has a direct or indirect domestic corporate partner (other than REITs, RICs, and S corporations) needed to determine the domestic corporate partner's FDII. A partnership that doesn't have or receive sufficient information or notice regarding a partner must presume the partner is a domestic corporate partner or a partnership that has a direct or indirect domestic corporate partner, and the partnership must complete Schedules K-2 and K-3, Part IV, accordingly. Any partnership with direct or indirect domestic corporate partners must complete this part, even if the partnership doesn't have foreign-derived gross receipts. Even if a partnership has no foreign activities, and therefore has no FDDEI as reported in Section 2 of this part, the partnership must still report the information required by Sections 1 and 3 of this part so that any direct or indirect domestic corporate partner can correctly determine its section 250 deduction. For example, a domestic corporate partner would still need information about the partnership's qualified business asset investment (QBAI) (see the instructions for line 8 of this part) in such a case to determine its deemed tangible income return and deemed intangible income (DII); see section 250(b)(2).

Section 250 allows a domestic corporation a deduction for its FDII, and a direct or indirect domestic corporate partner must take into account certain activities of a partnership in computing the domestic corporation's FDII. For the treatment of a domestic corporation that is a partner in a partnership, see Regulations sections 1.250(b)-1(e), 1.250(b)-2(g), and 1.250(b)-3(e). These instructions generally indicate how a partnership should complete Part IV (of both Schedules K-2 and K-3). However, Schedule K-2 includes the total of all partners' amounts and Schedule K-3 includes each partner's share.

Enter each amount and total amounts in U.S. dollars. The partnership should determine and report the partner's share of each item of the partnership contained on this form in accordance with the partner's distributive share of the underlying item of income, gain, deduction, and loss of the partnership. The partnership should report these amounts based on the best information available to it about how its partners might use this information to determine their FDII deduction. The partnership may report certain information differently to each partner depending on federal income tax determinations that the partner makes. Each partner must then figure its FDII deduction using Form 8993 including the information reported to it on Schedule K-3, Part IV, taking into account partner determinations. A partner must obtain (and if requested by a partner, the partnership must provide) any further necessary information from the partnership to correctly determine its FDII deduction.

Special rules for determining foreign use apply to transactions that involve property or services provided to related parties; see section 250(b)(5)(C) and Regulations section 1.250(b)-6.

For special substantiation requirements under the regulations, see Regulations sections 1.250(b)-3(f), 1.250(b)-4(d)(3), and 1.250(b)-5(e)(4). In all other cases, a taxpayer claiming a deduction under section 250 will still be required to substantiate that it's entitled to the deduction even if it isn't subject to the specific substantiation requirements contained in the regulations; see section 6001 and Regulations section 1.6001-1(a). Therefore, the partner must be able to satisfy the general or special substantiation requirements to be eligible for the deduction. To the extent the partner doesn't have the necessary information in its possession to substantiate the deduction, the partnership must maintain the information.

As described above, the partnership should determine the partner's share of each item below in accordance with the partner's distributive share of the underlying item of income, gain, deduction, and loss of the partnership.

Example 13—partners' reporting of DEI and QBAI. DC is a domestic corporation that owns a 50% interest in a domestic partnership, USP. USP manufactures and sells Product A and provides services, both solely to U.S. persons. The services give rise to domestic oil and gas extraction income (DOGEI) for

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purposes of section 250(b)(3)(A)(i)(V). USP has $200 in gross receipts from sales of Product A, $100 in COGS, and $50 in properly allocated and apportioned deductions (none of which are interest or R&E expenses). USP reports these amounts on Schedule K-2, Part IV, Section 1, lines 2a through 2c, respectively, and 50% of these amounts on the same section and lines of the Schedule K-3 that USP issues to DC, because this information is necessary for DC to compute its deduction eligible income (DEI). The net amount increases DC's DEI, which increases its DII and in turn increases its section 250 deduction for FDII. DC uses these amounts to calculate its gross DEI on Form 8993, Part I, line 4.

USP has $100 in gross receipts from services, $50 in cost of services, and $25 in properly allocated and apportioned deductions (none of which are interest or R&E expenses). Because the performance of these services results in DOGEI, it doesn't give rise to DEI, but rather the net amount of $25 ($100 – ($50 + $25) = $25) is reported on Schedule K-2 Part IV, Section 1, line 6, and 50% of the net amount is reported to DC on the same line and section of Schedule K-3, so that DC can treat this amount as an exclusion from its DEI. DC's DEI is determined without this amount by subtracting the amount from DEI on Form 8993, Part I, line 2e.

USP owns two properties, Asset C which has an adjusted basis of $1,000, and Asset D which has an adjusted basis of $1,200. Asset C is used in the production of Product A and Asset D is used in providing the DOGEI services. Because sales of Product A give rise to DEI, USP should report the partnership's adjusted basis in Asset C ($1,000) on Schedule K-2, Part IV, Section 1, line 8 (and $500 is reported to DC on the same section/line of Schedule K-3). This increases DC's QBAI and thereby increases DC's deemed tangible income return (DTIR). The increase to DTIR decreases DC's DII which in turn decreases its section 250 deduction for FDII. DC uses the amount to determine its DTIR from partnerships on Form 8993, Part I, line 7b. The services, however, don't give rise to DEI, so USP shouldn't include the partnership's adjusted basis in Asset D ($1,200) on Schedule K-2, Part IV, Section 1, line 8.

USP has no sales or services provided to foreign persons and therefore no FDDEI to report on Part IV, Section 2. Even though the partnership has no interest or R&E deductions, in many cases, the partnership would still have to complete Part IV, Section 3.

Section 1—Information To Determine Deduction Eligible Income (DEI) and Qualified Business Asset Investment (QBAI) on Form 8993

Line 1. Net income (loss). This amount may equal line 1 of *Analysis of Net Income (Loss) per Return* on Form 1065.

Line 2a. DEI gross receipts. Enter DEI gross receipts.

Line 2b. DEI COGS. Enter the amount of COGS attributable to the amount on line 2a.

Line 2c. DEI properly allocated and apportioned deductions. Enter the amount of deductions (including taxes) properly allocable to gross DEI, without interest and R&E expenses. See Regulations section 1.250(b)-1(d)(2) for more details. Enter the amounts of interest and R&E expenses on Section 3, lines 13 and 16, respectively. Deductions properly allocable to gross DEI are determined without regard to sections 163(j), 170(b)(2), 172, 246(b), and 250.

Lines 3 through 7 are exclusions from DEI used to determine the partner's DEI.

Line 4. Controlled foreign corporation (CFC) dividends. Enter the amount of any dividend received from a CFC for which the partner is a U.S. shareholder as defined under section 951(b). Don't include as a dividend any amount received from a CFC that is attributable to PTEP in the annual PTEP accounts of the partnership. See sections 959(a) and (d).

Note. The amount of distributions that are attributable to PTEP in annual PTEP accounts of a direct or indirect partner isn't taken into account in determining the CFC dividends to be entered on line 4.

Line 5. Financial services income. Enter the amount of net financial services income (as defined in section 904(d)(2)(D)) before interest and R&E deductions.

Line 6. Domestic oil and gas extraction income. Enter the amount of net DOGEI before interest and R&E deductions. The term "domestic oil and gas extraction income" means income described in section 907(c)(1) determined by substituting "within the United States" for "without the United States."

Line 7. Foreign branch income. Enter the amount of net foreign branch income before interest and R&E deductions as defined in section 904(d)(2)(J). A partnership should report all income that would be foreign branch income of its partners as if all partners were U.S. persons.

Line 8. Partnership QBAI. Enter the amount, if any, of the partnership QBAI. A domestic corporation's QBAI is its share of the average of the aggregate adjusted bases, determined as of the close of each quarter of the tax year, in certain specified tangible property. See Regulations section 1.250(b)-2(b).

The adjusted basis of specified tangible property is determined by using the alternative depreciation system under section 168(g) and allocating depreciation deductions for such property ratably to each day during the period in the tax year to which the depreciation relates. See Regulations section 1.250(b)-2(e).

Specified tangible property is property used in the trade or business of the corporation in the production of gross income included in the domestic corporation's gross DEI and is a type for which a deduction is allowable under section 167. See Regulations section 1.250(b)-2(b).

If a domestic corporation holds an interest in one or more partnerships during a tax year (including indirectly through one or more partnerships that are partners in a lower-tier partnership), the QBAI for the tax year of that domestic corporation is increased by the sum of the domestic corporation's partnership QBAI of each partnership for the tax year. See Regulations section 1.250(b)-2(g)(1).

Partnership QBAI is the sum of the domestic corporation's proportionate share of the partnership's adjusted basis in the property and the domestic corporation's partner specific QBAI basis in the property for the partnership tax year that ends with or within the tax year. See Regulations section 1.250(b)-2(g)(2).

Partnership specified tangible property means, with respect to a domestic corporation, tangible property that is used in the trade or business of the partnership, is a type of deduction allowable under section 167, and is used in the production of gross income included in the domestic corporation's gross DEI. See Regulations section 1.250(b)-2(g)(5).

If a partnership can't determine the portion of partnership specified tangible property (for example, if the partnership doesn't know if property gives rise to the production of gross income in one of the excluded categories from DEI that is determined by the partner, which would cause such property to not be classified as partnership specified tangible property), then when reporting the partner's share of the partnership QBAI, it must separately state the following information.

- Any information so a direct or indirect domestic corporate partner can make the distinction between the amounts of the adjusted bases in a partnership's tangible property that the

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domestic corporation would include in its adjusted bases in the partnership specified tangible property.

- Any information so a direct or indirect domestic corporate partner can make the distinction between the amounts of the adjusted bases in a partnership's tangible property that the domestic corporation wouldn't include in its adjusted bases in the partnership specified tangible property.

If tangible property was used in the production of DEI and in the production of income that is non-DEI, then it is considered dual-use property and treated as specified tangible property in the same proportion that the amount of the gross income included in DEI produced from the property bears to the total amount of gross income produced from the property. See Regulations section 1.250(b)-2(g)(8), Example 2, for guidance on how to figure the partner adjusted basis. If specified tangible property is only partially depreciable, then only the depreciable portion is QBAI.

Example 14—domestic corporate partner; specified tangible property. X and Y are both domestic corporations that are partners in USP, a partnership that holds three types of assets: B, C, and D. All types of assets are tangible property used in the trade or business of USP and for which a deduction is allowable under section 167.

The production of income from B assets is DEI for X and Y. Thus, the B assets are partnership specified tangible property for X and Y, and USP includes a proportionate amount of the adjusted bases of all B assets in calculating each partner's partnership QBAI.

The production of income from C assets is DEI for X. However, for Y, the production of income from C assets is non-DEI. Thus, the C assets are partnership specified tangible property for X only, and USP includes a proportionate amount of the adjusted bases of all C assets only in calculating X's partnership QBAI.

The D assets are dual-use property because the production of only part of the income from the D assets is DEI to X and Y. Thus, the D assets are partnership specified tangible property for both X and Y, but USP includes a proportionate amount of the adjusted bases of all D assets in calculating each partner's partnership QBAI only in the proportion that the amount of the gross income included in DEI produced from the D assets bears to the total amount of gross income produced from the D assets.

Section 2—Information To Determine Foreign-Derived Deduction Eligible Income (FDDEI) on Form 8993

Foreign-derived gross receipts means, with respect to a partnership, gross receipts of the partnership for the partnership's tax year that are used to figure gross FDDEI as defined in Regulations section 1.250(b)-1.

Generally, the term "general property" means any property other than intangible property; a security (as defined in section 475(c)(2)); an interest in a partnership, trust, or estate; or a commodity described in section 475(e)(2)(A) that isn't a physical commodity or a commodity described in sections 475(e)(2)(B) through (D). In these instructions for Section 2, when referenced, general property refers to amounts connected to the sale, lease, exchange, or other disposition of general property to a foreign person, and is for a foreign use as defined in Regulations sections 1.250(b)-3 and -4(d).

In these instructions for Section 2, intangible property refers to amounts connected to the sale, license, exchange, or other disposition of intangible property to a foreign person, and is for a foreign use as defined in Regulations sections 1.250(b)-3 and 1.250(b)-4(d)(2).

In these instructions for Section 2, sevices refers to amounts connected to services that are provided to any person, or for property, located outside the United States as defined in Regulations section 1.250(b)-5.

If a transaction includes both a sales component and a service component, the transaction is classified as either a sale or a service according to the overall predominant character of the transaction. See Regulations section 1.250(b)-3(d).

For purposes of determining a domestic corporation's deductions that are properly allocable to gross FDDEI, the corporation's deductions are allocated and apportioned to gross FDDEI under the rules of Regulations sections 1.861-8 through 1.861-14T and 1.861-17 by treating section 250(b) as an operative section described in Regulations section 1.861-8(f). See Regulations section 1.250(b)-1(d)(2).

Line 9. Gross receipts. Enter the amount, if any, of the partnership's foreign-derived gross receipts separately for aggregate sales of general property, aggregate sales of intangible property, and aggregate services. Foreign-derived gross receipts means gross receipts that are used to figure gross FDDEI as defined in Regulations section 1.250(b)-1(c)(16).

Line 10. COGS. Enter the amount of COGS attributable to the amount(s) on line 9.

For purposes of this form, when figuring FDDEI, COGS includes the COGS to customers, and adjusted basis of non-inventory property sold or otherwise disposed of in a trade or business.

In making that determination, attribute COGS to gross receipts using a reasonable method in accordance with Regulations section 1.250(b)-1(d)(1).

COGS must be attributed to gross receipts with respect to gross DEI or gross FDDEI regardless of whether certain costs included in COGS can be associated with activities undertaken in an earlier tax year (including a year before the effective date of section 250).

Line 11. Allocable deductions. Enter the amount of the allocable deductions. See Regulations section 1.250(b)-1(d)(2) for more details. Enter the amounts of interest and R&E expenses on Section 3, lines 13 and 16, respectively. Deductions are determined without regard to sections 163(j),170(b)(2), 172, 246(b), and 250.

Column (a). General property. Enter the amount of the deductions that are allocated and apportioned to gross FDDEI from all sales of general property.

Column (b). Intangible property. Enter the amount of the deductions that are allocated and apportioned to gross FDDEI from all sales of intangible property.

Column (c). Services. Enter the amount of the deductions that are allocated and apportioned to gross FDDEI from all services.

Line 12. Other apportioned deductions. Enter all other apportioned deductions that relate to gross FDDEI that aren't otherwise included on lines 11, 13, and 16. If a deduction doesn't bear a definite relationship to a class of gross income constituting less than all of gross income, it'll ordinarily be treated as definitely related and allocable to all of the taxpayer's gross income, including gross DEI and gross FDDEI, except where otherwise directed in the regulations.

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Section 3—Other Information for Preparation of Form 8993

In column (a), include the referenced deductions allocated and apportioned to DEI. In column (b), include the referenced deductions allocated and apportioned to FDDEI. In column (c), include the partnership's specific line totals.

Note. Column (c) isn't a sum of DEI and FDDEI but rather refers to the partnership's specific line totals (that is, that would also include non-DEI).

Line 13. Interest deductions. The term "interest" refers to the gross amount of interest expense incurred by a taxpayer in a given year. Generally, interest expense includes any expense that is currently deductible under section 163 (including original issue discount (OID)), and interest equivalents. See Temporary Regulations section 1.861-9T(b)(1) for the definition of interest equivalents, and Temporary Regulations section 1.861-9T(c) for sections that disallow, suspend, or require the capitalization of interest deductions. Include excess business interest expense (EBIE) determined under section 163(j)(4) on this line. Under Regulations section 1.250(b)-1(d)(2)(ii), deductions are determined without regard to section 163(j).

Lines 13A and 13B. Interest expense specifically allocable under Regulations section 1.861-10(e) and Temporary Regulations section 1.861-10T. On line 13A, enter interest expense directly allocable under Regulations section 1.861-10(e). On line 13B, enter interest expense that is directly allocable under Temporary Regulations section 1.861-10T to income from specific partnership property. Such interest expense is treated as directly allocable to income generated by such partnership property. See Temporary Regulations section 1.861-9T(e)(1).

Line 13C. Other interest expense. Enter all interest deductions not otherwise included on lines 13A and 13B.

Line 14. Interest expense apportionment factors. This line requires the partnership to report information that a partner will use to allocate and apportion its interest expense for FDII purposes.

Interest deductions are apportioned to gross DEI and FDDEI ordinarily based on the tax book value using the asset method according to Temporary Regulations section 1.861-9T(g)(1)(i). A taxpayer can use the tax book value or opt to use the alternative tax book value of its assets under Temporary Regulations section 1.861-9(i). Under both methods, the partner whose interest in the partnership is 10% or more uses the partnership's inside basis in its assets, including adjustments required under sections 734(b) and 743(b); see Regulations sections 1.861-9(e)(2) and (3). When reporting basis of a stock asset in a nonaffiliated 10%-owned corporation, adjust such amount for E&P according to Regulations section 1.861-12(c)(2)(i)(A).

The total interest expense deductions for the members of the corporation's affiliated group are allocated and apportioned to the statutory and residual groupings under final and Temporary Regulations sections 1.861-8 through 1.861-14.

A corporate partner with a less than 10% interest in a partnership shall directly allocate its distributive share of the partnership's interest expense to its distributive share of partnership gross income. See Regulations section 1.861-9(e)(4).

Line 14A. Total average value of assets. Enter the amount of the average of the beginning-of-year and end-of-year inside bases in the partnership's total assets. See Regulations section 1.861-9(g)(2)(i)(A).

Line 14B. Sections 734(b) and 743(b) adjustments to assets. Enter the amount of the average of the beginning-of-year and end-of-year inside bases adjustments under sections 734(b) and 743(b).

Lines 14C and 14D. Assets attracting directly allocable interest expense under Regulations section 1.861-10(e) and Temporary Regulations section 1.861-10T. Enter the amount of the reductions in the partnership's asset values to reflect the partnership's directly allocable interest under Regulations section 1.861-10(e) and Temporary Regulations section 1.861-10T. See also Temporary Regulations section 1.861-9T(e)(1).

Line 14E. Assets excluded from apportionment factors. Enter the amount of the average value of assets excluded from the apportionment formula. See section 864(e)(3).

Lines 15 and 16. R&E expenses apportionment factors. These lines require the partnership to report information that a partner will use to allocate and apportion its R&E expenses for FDII purposes. A partnership isn't required to complete lines 15 and 16 unless either (a) the partnership incurs R&E expenses; or (b) the partner is expected to license, sell, or transfer its intangible property to the partnership (as provided in Regulations section 1.861-17(f)(3)). R&E expenses deducted, or amortized and deducted, under section 174 are definitely related to all gross intangible income reasonably connected with relevant broad product categories of the taxpayer and are allocable to all items of gross intangible income as a class related to such product categories. The product categories are generally determined by reference to the three-digit SIC code. R&E expenses are apportioned between the statutory and residual groupings based on an analysis of the taxpayer's gross receipts from certain sales, leases, licenses, and services; see Regulations section 1.861-17. The exclusive apportionment rule in Regulations section 1.861-17(c) doesn't apply for purposes of apportioning R&E expenses to gross DEI and gross FDDEI.

R&E expenses are allocated and apportioned by the partner. This requires that the partnership report to its partners the gross receipts related to certain income within the statutory and residual groupings within a SIC code and the partner's distributive share of the partnership's R&E deductions, if any, connected with the SIC codes.

Line 15. Gross receipts by SIC code. Enter the SIC code for the determined grouping(s) and the gross receipts that resulted in gross income for DEI, FDDEI, and total gross receipts. The gross receipts in the total column (c) include not only DEI and FDDEI but also the partnership's sales and certain other parties' sales. See Regulations section 1.861-17(d) for more information. Gross receipts from certain transactions of parties both controlled or uncontrolled by the partnership may be included on line 15; see generally Regulations section 1.861-17(d).

Line 16. R&E expenses by SIC code. Enter the amount of R&E expenses by SIC code.

Schedule K-2, Part V; and Schedule K-3, Part V (Distributions From Foreign Corporations to Partnership)

Note. Certain partners will use the following information, in combination with other information known to the partners, including Schedule P (Form 5471), to exclude from gross income distributions to the extent that they're attributable to PTEP in their annual PTEP accounts and report foreign currency gain or loss of the PTEP on Forms 1040 and 1120. If eligible, partners will also use this information to figure and claim a dividends received deduction under section 245A on Form 1120.

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Use Schedule K-2, Part V, to report the distributions made by foreign corporations to the partnership.

Exception. Schedule K-2, Part V, isn't required to be completed for distributions by a foreign corporation if the partnership knows that (a) none of the distributions by the foreign corporation are attributable to PTEP in annual PTEP accounts of any direct or indirect partner, and (b) none of the partnership's direct or indirect partners are eligible to claim a deduction under section 245A for any distribution by the foreign corporation. Nevertheless, the partnership may be required to attach Worksheet 3 to Schedule K-2 (discussed below).

Use Schedule K-3, Part V, to report the partner's share of the amounts reported on Schedule K-2, Part V.

Exception. Schedule K-3, Part V, for a partner doesn't need to be completed for distributions by a foreign corporation if the partnership knows that (a) none of the distributions by the foreign corporation are attributable to PTEP in annual PTEP accounts of the partner or any U.S. person that is treated as indirectly owning stock of the foreign corporation through the partner (relevant indirect partners), and (b) the partner and relevant indirect partners aren't eligible to claim a deduction under section 245A for any distributions by the foreign corporation. Nevertheless, the partnership may be required to attach Worksheet 4 to Schedule K-3 for the partner (discussed below). If this exception is applicable to a foreign corporation, the sum of the amounts reported on Schedules K-3, Part V, of the foreign corporation may not equal the amounts reported on Schedule K-2, Part V, of the foreign corporation.

Rows A through O. Use rows A through O to report information for each distribution of stock by a foreign corporation that the partnership (directly or through pass-through entities) owns (within the meaning of section 958) other than solely by reason of applying section 318(a)(3) (providing for downward attribution) as provided in section 958(b). For example, if a partnership (upper-tier partnership) directly owns 50% of the foreign corporation's stock and owns 50% of the foreign corporation's stock through another partnership (lower-tier partnership), then distributions by the foreign corporation to both the upper-tier partnership and the lower-tier partnership are to be reported on separate rows of the upper-tier partnership's Schedules K-2 and K-3 (Form 1065), Part V. If the partnership owns stock of a foreign corporation through another partnership (lower-tier partnership) from which it receives Schedule K-3 (Form 1065 or 8865), Part V, the partnership must replicate each line of Schedule K-3 (Form 1065 or 8865), Part V, on its Schedules K-2 and K-3 (Form 1065), Part V. Rows for distributions of a partnership's direct ownership of foreign corporation stock should be listed before rows for distributions of a partnership's indirect ownership of foreign corporation stock through a pass-through entity.

If the partnership is a domestic partnership, the partnership may have annual PTEP accounts with respect to the foreign corporation, or the foreign corporation may have E&P that, when distributed, are excludable from the partnership's gross income under section 1293(c). Don't report distributions to the extent that they're attributable to PTEP in annual PTEP accounts of the partnership or to E&P that are excludable from the partnership's gross income under section 1293(c). Distributions by the foreign corporation to the partnership that are attributable to PTEP in annual PTEP accounts of the partnership should be properly reflected on the Schedules J (Form 5471) for the foreign corporation. The partnership should provide this information to its partners as appropriate.

Note. If additional rows are required, attach statements to Schedules K-2 and K-3 that look like the current versions of Schedule K-2, Part V, and Schedule K-3, Part V, respectively.

However, to the extent a distribution is attributable to PTEP in an annual PTEP account of the partnership with respect to a foreign corporation, or attributable to E&P that are excludable from the partnership's gross income under section 1293(c), that corresponds to a tax year of the foreign corporation that ended with or within a tax year of the partnership (a) that began after December 31, 2012; and (b) for which an election under Regulations section 1.1411-10(g) wasn't made by the partnership (such PTEP, NII PTEP), attach Worksheet 3 to Schedule K-2 and Worksheet 4 to each Schedule K-3 in the format shown, adding additional rows as necessary for each distribution by a foreign corporation. For more information about net investment income (NII) and net investment income tax (NIIT) relating to CFCs and qualified electing funds (QEFs), see Regulations section 1.1411-10.

Worksheet 3

Worksheet 3 (Schedule K-2)						
(a) Name of distributing foreign corporation	**(b)** EIN or reference ID number	**(c)** Date of distribution	**(d)** Functional currency of distributing foreign corporation	**(e)** Amount of NII PTEP in functional currency	**(f)** Spot rate (functional currency to U.S. dollars)	**(g)** Amount of NII PTEP in U.S. dollars

Worksheet 4

Worksheet 4 (Schedule K-3)						
(a) Name of distributing foreign corporation	**(b)** EIN or reference ID number	**(c)** Date of distribution	**(d)** Functional currency of distributing foreign corporation	**(e)** Partner's share of NII PTEP in functional currency	**(f)** Spot rate (functional currency to U.S. dollars)	**(g)** Partner's share of NII PTEP in U.S. dollars

Column (b). EIN or reference ID number. Enter the EIN or reference ID number of the distributing foreign corporation. Don't enter "FOREIGNUS" or "APPLIED FOR." For basic information about reference ID numbers (including the requirements as to the characters permitted), see the Instructions for Form 1118.

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Column (c). Date of distribution. Enter the year, month, and day in which the distribution was made using the format YYYYMMDD.

Column (d). Functional currency of distributing foreign corporation. Enter the applicable three-character alphabet code for the foreign corporation's functional currency using the ISO 4217 standard. These codes are available at *ISO.org/ISO-4217-currency-codes.html*.

Column (e). Amount of distribution in functional currency. This represents the partnership's share of the amount distributed in functional currency. See Schedule R (Form 5471), column (c).

Column (f). Amount of E&P distribution in functional currency. This represents the partnership's share of the amount of E&P distributed in functional currency. See Schedule R (Form 5471), column (d). The total of the amounts reported in column (f) of a distributing foreign corporation should equal the partnership's share of the total reported on line 9 of all Schedules J (Form 5471) on a separate category of income basis as reported in the Schedule J (Form 5471), line 9, column (f), as "TOTAL," filed with respect to the distributing foreign corporation.

If a Schedule J (Form 5471) with "TOTAL" entered on line (a) isn't filed for the distributing foreign corporation, then the total of the amounts reported in column (f) of a distributing foreign corporation should equal the partnership's share of the amount reported in Schedule J (Form 5471), line 9, column (f), filed with respect to the distributing foreign corporation.

Column (g). Spot rate (functional currency to U.S. dollars). Enter the exchange rate on the date of distribution used to translate the amount of the distribution in functional currency to U.S. dollars; see section 989(b)(1). Report the exchange rate using the divide-by convention specified under *Reporting exchange rates on Form 5471* in the Instructions for Form 5471.

Column (h). Amount of distribution in U.S. dollars. Enter the amount of the distribution in U.S. dollars. Translate column (e) using the spot rate reported in column (g).

Column (i). Amount of E&P distribution in U.S. dollars. Enter the amount of E&P distributed in U.S. dollars. Translate column (f) using the spot rate reported in column (g).

Column (j). Qualified foreign corporation. If the distributing foreign corporation is a qualified foreign corporation, determined without regard to section 1(h)(11)(C)(iii)(I), check the box. See section 1(h)(11)(C).

Schedule K-2, Part VI (Information on Partners' Section 951(a)(1) and Section 951A Inclusions); and Schedule K-3, Part VI (Information on Partner's Section 951(a)(1) and Section 951A Inclusions)

Note. Certain partners will use the following information to complete Form 8992 and Forms 1040 and 1120 for income inclusions under section 951(a) (subpart F income inclusions), section 951(a)(1)(B) inclusions, and section 951A inclusions.

Schedules K-2 and K-3, Part VI, must be completed for a CFC if the partnership owns (within the meaning of section 958) stock of the CFC, unless the partnership owns stock of the CFC solely by reason of applying section 318(a)(3) (providing for downward attribution) as provided in section 958(b).

Generally, a foreign corporation is a CFC if more than 50% of either (a) the total combined voting power of all classes of stock entitled to vote, or (b) the total value of the stock of the corporation is owned (within the meaning of section 958(a)) or is considered as owned by applying the rules of section 958(b) by U.S. shareholders. For this purpose, a U.S. shareholder is a U.S. person (as defined in section 957(c)) who owns (within the meaning of section 958(a)), or is considered as owning by applying the rules of ownership of section 958(b), 10% or more of the total combined voting power of all classes of stock entitled to vote, or 10% or more of the total value of shares of all classes of stock of such foreign corporation.

If the partnership is a domestic partnership, then the domestic partnership doesn't have subpart F income inclusions or section 951(a)(1)(B) inclusions for a foreign corporation. In Schedule K-3, Part VI, columns (e) and (f), report the information partners will need to figure and report their subpart F income inclusions and section 951(a)(1)(B) inclusions of the CFC.

Exception. Schedule K-2, Part VI, doesn't need to be completed for a CFC if the partnership knows that it doesn't have a direct or indirect partner (through pass-through entities only) that is a U.S. shareholder of the CFC required to include in gross income a subpart F income inclusion and/or section 951(a)(1)(B) inclusion of the CFC, or figure section 951A inclusions by taking into account GILTI items (defined below) of the CFC.

GILTI items. GILTI items consist of tested income, tested loss, QBAI, tested loss QBAI amount, tested interest income, and tested interest expense (a CFC's subpart F income and GILTI items, CFC items). A partner uses these items to figure its GILTI for each CFC for which it is a U.S. shareholder.

Exception. Schedule K-3, Part VI, for a partner doesn't need to be completed for a CFC if the partnership knows that (a) the partner isn't a U.S. shareholder of the CFC required to include in gross income a subpart F income inclusion and/or section 951(a)(1)(B) inclusion of the CFC, or figure section 951A inclusions by taking into account GILTI items of the CFC; and (b) no U.S. person that indirectly owns (through pass-through entities only) an interest in the CFC through the partner is a U.S. shareholder of the CFC required to include in gross income a subpart F income inclusion and/or section 951(a)(1)(B) inclusion of the CFC, or figure section 951A inclusions by taking into account GILTI items of the CFC. If the partnership doesn't complete Schedule K-3, Part VI, for a partner of a CFC, the sum of each partner's share of the CFC's subpart F income, section 951(a)(1)(B) inclusion of the CFC, and share of the CFC's GILTI items reported on all Schedules K-3 may not equal the aggregate share of subpart F income of the CFC, the aggregate section 951(a)(1)(B) inclusion of the CFC, and the aggregate share of the CFC's GILTI items, respectively, reported on Schedule K-2.

Use Schedule K-3, Part VI, to report the partner's share of the amounts needed to figure its subpart F income inclusions, its section 951(a)(1)(B) inclusions, and its share of items of CFCs needed to determine the partner's GILTI inclusion, of CFCs owned (within the meaning of section 958) by the partnership.

If the partnership must complete Schedules K-2 and K-3, Part VI, of a CFC, then the partnership must complete Schedules K-2 and K-3, Part VI, by assuming that each partner in the partnership is a U.S. shareholder of the CFC and is required to include in gross income its share of the CFC's subpart F income, an amount determined under section 956 for the CFC (section 951(a)(1)(B) inclusion), and its GILTI.

A partner's share of a CFC's subpart F income, amounts used to determine its section 956 amount of a CFC, and a CFC's GILTI items may not be limited to the partner's share of such income, amounts, or items through its ownership in the partnership. However, for purposes of completing Schedules K-2 and K-3, Part VI, use only the partner's share of a CFC's subpart F income, amounts used to determine its section 956 amount of a CFC, and a CFC's GILTI items through the partner's ownership in the partnership.

A partner's share through its ownership in the partnership of subpart F income and GILTI items is generally anticipated to be

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figured by multiplying the percentage in Part VI, column (d), by the amount of subpart F income or GILTI items, respectively. For example, in general, a partner's share through its ownership interest in the partnership of tested income in column (i) is anticipated to be figured by multiplying the percentage in column (d) by the amount of tested income in column (g). If the partner's share through its ownership in the partnership of subpart F income or GILTI items isn't figured by multiplying the percentage in column (d) by the amount of subpart F income or GILTI items, respectively (for example, because of special allocations), then, instead of entering a percentage in column (d) for that CFC, attach a statement to Schedules K-2 and K-3 explaining the partner's share through its ownership in the partnership of the CFC's subpart F income and GILTI items.

Line a. Complete a separate Part VI for each applicable separate category of income. However, all GILTI items must be reported on only one Part VI. If GILTI items include passive category income, report all GILTI items on the Part VI completed for passive category income; otherwise, report all GILTI items on the Part VI completed for general category income. Enter the appropriate code on line a.

Note. The other reporting requirements of a partnership that's reporting income by separate category don't change by reason of the partnership reporting GILTI items that include general category income on a Part VI completed for passive category income.

Codes for Categories of Income

Code	Category of income
PAS	Passive category income
901j	Section 901(j) income
GEN	General category income

Line b. If any portion of a CFC item is U.S. source, complete a separate Part VI for U.S.-source CFC items, and check the box on line b of that separate Part VI.

Line 1. Partnership total. Use lines A through K to report information of CFCs owned (within the meaning of section 958) by the partnership, and for which Schedules K-2 and K-3, Part VI, must be completed. If the partnership owns a CFC through another partnership (lower-tier partnership) from which it receives a Schedule K-3 (Form 1065 or 8865), Part VI, the partnership must replicate each line of Schedule K-3 (Form 1065 or 8865), Part VI, that is related to the CFC on its Schedule K-2 (Form 1065), Part VI. For example, if a partnership directly owns 50% of the CFC's stock and owns 50% of the CFC's stock through a lower-tier partnership, the CFC should be listed on two lines with one line related to the partnership's direct ownership and the other line related to the partnership's ownership through the lower-tier partnership. Lines related to a partnership's direct ownership of CFCs should be listed before lines related to a partnership's indirect ownership of CFCs. If additional lines are required, attach a statement to Schedules K-2 and K-3 that looks like the current version of Part VI.

Column (a). Name of CFC. Enter the name of each CFC for which Part VI must be completed.

Column (b). EIN or reference ID number. Enter the EIN or reference ID number of the CFC. Don't enter "FOREIGNUS" or "APPLIED FOR." For basic information about reference ID numbers (including the requirements as to the characters permitted), see the Instructions for Form 1118.

Column (c). Ending of CFC tax year. Enter the end of the CFC's tax year using the format YYYYMMDD.

Column (d). Partners' share of CFC items through their ownership in the partnership. Enter the partners' shares of CFC items through the partners' ownership in the partnership (aggregate share). See Regulations sections 1.951-1(b), 1.951-1(e), and 1.951A-1(d)(1) for rules on determining the partners' shares.

Column (e). Aggregate share of subpart F income. Enter the aggregate share of the amount of the CFC's subpart F income, if any. Note that an amount determined under section 956(a) isn't considered subpart F income. For guidance on computing a CFC's subpart F income and the partners' shares of a CFC's subpart F income, see Worksheet A in the Instructions for Form 5471.

Column (f). Aggregate section 951(a)(1)(B) inclusion. Enter the amount determined under section 956 for the partners that relate to those partners' ownership in the partnership, as outlined below. To determine the section 956 amount, use only the partners' shares through their ownership in the partnership of the following.

- The average of the amounts of U.S. property held (directly or indirectly) by the CFC as of the close of each quarter of the CFC's tax year.
- The applicable earnings of the CFC.

Don't reduce the amount reported in column (f) for any reduction to the partners' section 956 amount under Regulations section 1.956-1(a)(2). For guidance on computing the partners' shares of a CFC's earnings invested in U.S. property, see Worksheet B in the Instructions for Form 5471.

Column (g). Tested income. Enter the CFC's tested income, if any, from Schedule I-1 (Form 5471), line 6, for each CFC.

Column (h). Tested loss. Enter the CFC's tested loss, if any, from Schedule I-1 (Form 5471), line 6, for each CFC.

Column (i). Aggregate share of tested income. Enter the aggregate share of the tested income listed in column (g) for each CFC with tested income.

Column (j). Aggregate share of tested loss. Enter the aggregate share of the tested loss listed in column (h) for each CFC with tested loss.

Column (k). Aggregate share of QBAI. If the CFC has a tested loss in column (h), enter zero. If the CFC has tested income in column (g), enter the aggregate share of QBAI from Schedule I-1 (Form 5471), line 8.

Column (l). Aggregate share of the tested loss QBAI amount. If the CFC has tested income in column (g), enter zero. If the CFC has a tested loss in column (h), enter the aggregate share of the CFC's tested loss QBAI amount from Schedule I-1 (Form 5471), line 9c, which must be translated to U.S. dollars. For more information, see Regulations section 1.951A-4(b)(1)(iv).

Column (m). Aggregate share of tested interest income. Enter the aggregate share of the CFC's tested interest income from Schedule I-1 (Form 5471), line 10c.

Column (n). Aggregate share of tested interest expense. Enter the aggregate share of the CFC's tested interest expense from Schedule I-1 (Form 5471), line 9d.

Schedule K-2, Part VII; and Schedule K-3, Part VII (Information Regarding Passive Foreign Investment Companies (PFICs))

Note. Partners will use the following information to complete Form 8621 and/or determine income inclusions of the PFICs reported on Schedules K-2 and K-3, Part VII.

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Except as otherwise provided, Schedules K-2 and K-3, Part VII, must be filed by every partnership that owns PFIC stock, directly or indirectly. However, the following exceptions apply.

- A partnership that knows it doesn't have direct or indirect partners that are U.S. persons, including U.S persons that own an indirect interest in the partnership through one or more foreign entities, isn't required to complete Schedules K-2 and K-3, Part VII.
- A domestic partnership that has elected to treat a PFIC as a pedigreed QEF or made a market-to-market (MTM) election under section 1296 for a PFIC applicable to the partnership's tax year (other than a domestic partnership making an MTM election under section 1296 for PFIC stock in the current tax year if the current tax year isn't the first year of the partnership's holding period in the stock (non-initial section 1296 MTM election)) isn't required to complete Schedules K-2 and K-3, Part VII, with information regarding that PFIC if the partnership files Form 8621 for that PFIC. The term "pedigreed QEF" is defined in Regulations section 1.1291-1(b)(2)(ii).
- A partnership that owns stock of a foreign corporation that is treated as a qualifying insurance corporation (QIC) (as defined in section 1297(f)(1)) and which isn't treated as a PFIC by reason of section 1298(b)(1), or a domestic partnership that satisfies the deemed election requirements of Regulations section 1.1297-4(d)(5)(iv) with respect to a foreign corporation eligible to be treated as a QIC (and that isn't treated as a PFIC by reason of section 1298(b)(1)), isn't required to complete Schedules K-2 and K-3, Part VII, for that foreign corporation.
- A partnership that knows that all of its direct and indirect partners that are U.S. persons are either (a) not subject to the PFIC rules for the foreign corporation under section 1297(d) because they're subject to the subpart F rules for the foreign corporation, (b) tax-exempt entities that aren't subject to the PFIC rules for the foreign corporation under Regulations section 1.1291-1(e), or (c) pass-through entities with no direct or indirect U.S. taxable owners isn't required to complete Schedules K-2 and K-3, Part VII, for the foreign corporation.
- A partnership that marks to market stock of a PFIC as described in Regulations section 1.1291-1(c)(4) doesn't need to report information about the PFIC on Schedules K-2 and K-3, Part VII. The partnership should report its MTM gain or loss on Form 1065, Schedule K, and report the partners' shares of those amounts on Schedule K-1 (Form 1065), Part III. Note, however, there may be instances in which the partnership will need to provide its partners with additional information to meet their tax obligations of PFIC stock the partnership has marked to market as described in Regulations section 1.1291-1(c)(4), such as when section 1291 rules apply because the stock wasn't marked in the first year of the partnership's holding period. In such instances, the partnership may use Part VII to provide the needed information.

Use Schedule K-2, Part VII, to report certain information for any PFIC owned, directly or indirectly, by the partnership for which reporting is required, including (a) PFICs that haven't made a QEF or section 1296 MTM election; (b) unpedigreed QEFs (section 1291 funds); and (c) PFICs for which pedigreed QEF, section 1296 MTM, or other elections have been, or may be, made, and for which the partnership isn't filing a Form 8621.

Domestic partnerships must also use Schedule K-2, Part VII, to report information for any PFIC for which the partnership is making a non-initial section 1296 MTM election, and for any foreign corporation eligible to be treated as a QIC that's treated as a PFIC by reason of section 1298(b)(1), regardless of whether it files Form 8621 for that PFIC. See section 1296(j)(1)(A) and Regulations section 1.1296-1(i) for more information related to non-initial section 1296 MTM elections.

Use Schedule K-3, Part VII, to report the partner's share, through its ownership in the partnership, of the amounts reported on Schedule K-2, Part VII.

Complete only one line on both Sections 1 and 2 for each PFIC that is required to report using Schedules K-2 and K-3, Part VII. Each line completed for a PFIC in Section 1 should correspond to the same line on Section 2. If there is no information to report about a PFIC in Section 2, columns (c) through (o), only complete the name and EIN of the PFIC in Section 2, columns (a) and (b), and leave columns (c) through (o) blank for that PFIC. For additional information on determining indirect ownership of PFICs, see Regulations section 1.1291-1(b)(8).

The partnership may have additional required information for a PFIC for certain columns (for example, scenarios where the partnership may have multiple different events for the PFIC in the same tax year, such as multiple dates of acquisitions of, or distributions of, the PFIC stock). In that case, complete Schedules K-2 and K-3, Part VII, with the first of those entries for a PFIC and attach a statement including the remaining entries for that PFIC to Schedule K-2, Part VII, and its corresponding Schedules K-3, Part VII, with the information contained in Table 6 and/or Table 7.

If the partnership has additional PFICs to report and the information doesn't fit on single Schedules K-2 and K-3, Part VII, it can attach additional Parts VII of Schedules K-2 and K-3, as needed.

Section 1—General Information

Columns (a) through (c). Enter the name, U.S. EIN or reference ID number, and address of each PFIC held directly or indirectly by the partnership during its tax year. Don't enter "FOREIGNUS" or "APPLIED FOR."

For basic information about reference ID numbers (including the requirements as to the characters permitted), see the Instructions for Form 8621.

Columns (d) and (e). Beginning and ending of PFIC tax year. Enter the beginning and end of the PFIC's tax year using the format YYYYMMDD.

Column (f). Description of each class of PFIC shares. Enter each class of shares in the PFIC owned by the partnership using the following codes.

Codes for Classes of PFIC Shares

Code	Class of PFIC shares
COM	Common or ordinary shares
PRE	Preferred shares
OTH	Other equity interest
VAR	Multiple classes of shares or equity interests

Column (g). Dates PFIC shares acquired during tax year. If the partnership acquired any PFIC shares during its tax year, provide the date(s) of acquisition of those shares using the format YYYYMMDD. If the partnership acquired no shares in a particular PFIC during its tax year, leave this column blank for that PFIC.

Note. If the partnership acquired shares in a PFIC on multiple dates during the tax year, attach a statement with the information contained in Table 6 to Schedule K-2, Part VII, and its corresponding Schedules K-3, Part VII, providing those dates.

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Table 6

Additional Information for Part VII, Section 1		
General Information		Annual Information
(a) Name of PFIC	**(b)** EIN or reference ID number	**(g)** Dates PFIC shares acquired during tax year (if applicable)

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Column (h). Total number of PFIC shares held at end of tax year. Enter the total number of all classes of shares of the PFIC the partnership owned at the end of its tax year.

Column (i). Total value of PFIC shares held at end of tax year. Enter the total value of all shares in the PFIC held by the partnership at the end of the tax year. If the PFIC shares aren't publicly traded, the partnership may rely upon periodic account statements provided at least annually to determine the value of a PFIC unless the partnership has actual knowledge or reason to know based on readily accessible information that the statements don't reflect a reasonable estimate of the PFIC's value and the information provides a more reasonable estimate of the PFIC's value.

Note. A partner may need additional information not required to be reported on this Schedule K-2, Part VII (or the partner's Schedule K-3, Part VII), from the partnership about the value of the PFIC shares as of a particular date to aid the partner in making certain elections under Regulations section 1.1291-10, 1.1297-3, or 1.1298-3.

Column (j). Election by partnership. If the partnership is a domestic partnership and has made either of the following elections for the PFIC, indicate which election was made using the following codes. If the partnership hasn't made an election for the PFIC, leave this column blank for that PFIC.

Partnership Election Codes

Code	Partnership election type
QEF	Qualified electing fund election
MTM	Section 1296 mark-to-market election

Reminder. If the partnership is a domestic partnership and has made a pedigreed QEF election or section 1296 MTM election (other than a non-initial section 1296 MTM election) for a PFIC, and the partnership files Form 8621 for that PFIC, it isn't required to report information regarding that PFIC on Schedule K-2 or K-3, Part VII. If the partnership has marked stock in a PFIC to market as described in Regulations section 1.1291-1(c)(4), it isn't required to report information regarding that PFIC on Schedule K-2 or K-3, Part VII.

Column (k). Check the box if the foreign corporation has indicated that it has documented eligibility to be treated as a QIC. See section 1297(f) and Regulations section 1.1297-4 for additional information on QICs.

Column (l). Check the box if the PFIC has indicated that its shares are marketable stock as defined in section 1296(e) and Regulations section 1.1296-2.

Column (m). Check the box if the PFIC also constitutes a CFC within the meaning of section 957 (PFIC/CFC).

Reminder. A partnership that knows that all of its direct and indirect partners that are U.S. persons aren't subject to the PFIC rules for a PFIC/CFC under section 1297(d) because they're subject to the subpart F rules for the PFIC/CFC isn't required to complete Schedule K-2 or K-3, Part VII, for that PFIC/CFC.

Note. If the PFIC is a PFIC/CFC, a partner may need certain additional information from the partnership regarding the PFIC/CFC's E&P that isn't required to be reported on this Schedule K-2, Part VII (or the partner's Schedule K-3, Part VII). This is needed to aid the partner in making certain elections under Regulations section 1.1291-9, 1.1297-3, or 1.1298-3.

Column (n). Complete column (n) in the following manner.

Completing Part VII, Section 1, Column (n)	
IF...	**THEN...**
• this is the first year of the partnership's holding period in stock of the foreign corporation, and • the partnership has determined (directly or otherwise) that the foreign corporation is a PFIC under the income test or asset test of section 1297(a)	check the box.
• the foreign corporation was a PFIC in a prior tax year of the partnership's holding period, and • the partnership hasn't determined (directly or otherwise) the foreign corporation is a former PFIC within the meaning of Regulations section 1.1291-9(j)(2)(iv)	check the box.
• the foreign corporation was a PFIC in a prior tax year of the partnership's holding period, and • the partnership has determined (directly or otherwise) the foreign corporation is a former PFIC within the meaning of Regulations section 1.1291-9(j)(2)(iv)	don't check the box.

Note. If the foreign corporation is a former PFIC within the meaning of Regulations section 1.1291-9(j)(2)(iv), a partner may need additional information regarding the PFIC from the partnership that isn't required to be reported on this Schedule K-2, Part VII (or the partner's Schedule K-3, Part VII). This is needed to aid the partner in making certain elections under Regulations section 1.1298-3.

Section 2—Additional Information on PFIC or Qualified Electing Fund (QEF)

General Information

Columns (a) and (b). Enter the name and U.S. EIN (or reference ID number) of each PFIC held directly or indirectly by the partnership during its tax year. Don't enter "FOREIGNUS" or "APPLIED FOR."

QEF Information

Columns (c) and (d). In columns (c) and (d), enter the partnership's share of the total ordinary earnings and net capital gain (as defined in Regulations section 1.1293-1(a)(2)) of the PFIC for the partnership's tax year in which or with which the tax year of the PFIC ends. The PFIC should provide the partnership with a statement that provides information to assist the partnership in determining these amounts. See Regulations section 1.1295-1(g) for additional information on annual PFIC statements.

A domestic partnership must provide this information for any PFIC for which it has made a pedigreed QEF election but doesn't file Form 8621, and for any PFIC it has elected to treat as an unpedigreed QEF. A foreign partnership must provide this information if it has received an annual information statement for the PFIC, unless the partnership knows that no direct or indirect partner has made, or intends to make, a QEF election for the PFIC. The partnership may obtain this knowledge in any reasonable manner, provided it retains a written record in its books and records.

Reminder. If the partnership is a domestic partnership and has made a pedigreed QEF election for a PFIC, and if the partnership files Form 8621 for that PFIC, the partnership isn't required to report information regarding that PFIC on Schedule K-2 or K-3, Part VII. The partnership should report its inclusion of its share of the QEF's ordinary earnings and net capital gain on Form 1065, Schedule K, and report the partners' shares of those amounts on Schedules K-1, Part III. However, certain partners which receive a distributive share of the partnership's QEF inclusions may be entitled to claim foreign tax credits under section 960 for those inclusions. See the instructions for Schedules K-2 and K-3, Part VIII, regarding deemed paid foreign tax credits under section 960 and inclusions of a QEF under section 1293(f).

Note. Certain partners may need additional information that isn't required to be reported on this Schedule K-2, Part VII (or the partner's Schedule K-3, Part VII), from the QEF regarding its computation of its net capital gain (as defined in Regulations section 1.1293-1(a)(2)). This information is needed to perform certain computations under section 1061 or the regulations thereunder. The partnership may aid the partner in obtaining this information from the QEF, though the QEF isn't required to provide it. See section 1061 and Regulations sections 1.1061-4 and 1.1061-6 for more information.

Section 1296 Mark-to-Market Information

Columns (e) and (f). FMV of PFIC shares at beginning and ending of tax year. In columns (e) and (f), enter the fair market value (FMV) of the PFIC stock at the beginning and end of the partnership's tax year. If any shares of the PFIC were acquired during the tax year for which the Form 1065 is being filed, the FMV in column (e) should reflect the FMV of those shares as of the date of acquisition. A domestic partnership must provide this information for any PFIC for which it has made an MTM election under section 1296 but for which it doesn't file Form 8621 and for any PFIC for which it's making a non-initial section 1296 MTM election. A foreign partnership must provide this information unless it knows that no direct or indirect partner has made, or intends to make, an MTM election under section 1296 for the PFIC. The partnership may obtain this knowledge in any reasonable manner, provided it retains a written record in its books and records.

Reminder. If the partnership is a domestic partnership and has made an MTM election under section 1296 for a PFIC (other than a non-initial section 1296 MTM election), and if the partnership files Form 8621 for that PFIC, the partnership isn't required to report information regarding that PFIC on Schedule K-2 or K-3, Part VII. The partnership should report its section 1296(a) MTM gain or loss on Form 1065, Schedule K, and report the partners' shares of those amounts on Schedule K-1, Part III.

If the partnership has marked stock in a PFIC to market as described in Regulations section 1.1291-1(c)(4), it isn't required to report information regarding that PFIC on Schedule K-2 or K-3, Part VII, though it may use Part VII to provide its partners with additional information to meet their tax obligations with respect to the PFIC in certain instances, such as when the section 1291 rules apply because the partnership didn't mark the stock to market in the first year of its holding period.

Note. If the partnership is a domestic partnership that has made an MTM election under section 1296 for a PFIC but doesn't file Form 8621 for that PFIC, a partner may need additional information that isn't required to be reported on this Schedule K-2, Part VII (or the partner's Schedule K-3, Part VII), regarding its share of the partnership's adjusted tax basis in the partnership's MTM PFIC stock. This information is needed to complete Form 8621.

Section 1291 and Other Information

Generally, the information in columns (g) through (o) is to assist shareholders of section 1291 funds in satisfying any information reporting obligations and in computing income inclusions of section 1291 funds. However, this information may be relevant to PFICs for which a QEF election (pedigreed or unpedigreed), a section 1296 MTM election (including a non-initial section 1296 MTM election), or other election has been made by the partnership, partner, or other indirect PFIC shareholder. Accordingly, the partnership must complete columns (g) through (o) for each PFIC for which reporting on Schedules K-2 and K-3, Part VII, is required. However, note the instructions for column (k) regarding reporting distributions from PFICs for which the partnership has made a pedigreed QEF election or section 1296 MTM election (other than a non-initial section 1296 MTM election) and the partnership doesn't file Form 8621.

Reminder. If the partnership has additional required information for a PFIC for any of columns (g) through (j) or (l) through (m) (for example, if the partnership received multiple distributions of stock in a PFIC), it must complete that column with the first of those entries and attach a statement including the remaining entries to Schedule K-2, Part VII, and its corresponding Schedules K-3, Part VII, with the information contained in Table 7.

Column (g). Dates PFIC shares were acquired. Enter the date(s) on which the partnership initially acquired each block of stock in the PFIC using the format YYYYMMDD.

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Table 7

Additional Information for Part VII, Section 2									
General Information		Section 1291 and Other Information							
(a) Name of PFIC	**(b)** EIN or reference ID number	**(g)** Dates PFIC shares were acquired	**(h)** Amount of cash and FMV of property distributed by PFIC during the current tax year (if applicable)	**(i)** Dates of distribution	**(j)** Total creditable foreign taxes attributable to distribution by PFIC	**(l)** Dates PFIC shares disposed of during tax year (if applicable)	**(m)** Amount realized on disposition of PFIC shares	**(n)** Tax basis of PFIC shares on date of disposition	**(o)** Gain or (loss) on disposition of PFIC shares

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Column (h). Amount of cash and FMV of property distributed by PFIC during the current tax year. Enter the amount of each distribution of cash and/or the FMV of any other property distributed to the partnership by the PFIC during the tax year, if any.

Note. Deemed distributions by QEFs don't need to be reported on this Schedule K-2, Part VII (or the partner's Schedule K-3, Part VII). However, partners which have made, or intend to make, an election under section 1294, and which are deemed to have received a distribution from the QEF, may require this information to complete any computations under section 1294 (including for Form 8621, if required). See section 1294(f) and Temporary Regulations section 1.1294-1T for additional information.

Column (i). Dates of distribution. Enter the date(s) of distribution of the amounts entered in column (h) using the format YYYYMMDD.

Column (j). Total creditable foreign taxes attributable to distribution by PFIC. Enter the total creditable foreign taxes attributable to a distribution from the PFIC. See section 1291(g) and the instructions for Form 8621, Part V, line 16d, for additional information on creditable foreign taxes attributable to PFIC distributions, including apportioning creditable foreign taxes to the portion of a distribution which constitutes an excess distribution and certain rules related to creditable foreign taxes on a disposition of PFIC stock.

Note. Creditable foreign taxes entered in column (j) don't include taxes attributable to QEF inclusions under section 1293(f). Enter only creditable foreign taxes within the meaning of section 1291(g) in column (j). See the instructions for Schedules K-2 and K-3, Part VIII, regarding deemed paid foreign tax credits under section 960 and inclusions of a QEF under section 1293(f).

Column (k). Total distributions from PFIC in preceding 3 tax years. Enter the total amount of distributions the partnership received from the PFIC in the 3 preceding tax years, or, if shorter, the total amount of distributions the partnership received during its holding period of the PFIC stock. However, don't enter any amount in this column for a PFIC for which the partnership has made a pedigreed QEF election or section 1296 MTM election (other than a non-initial section 1296 MTM election) and for which the partnership doesn't file Form 8621.

Column (l). Dates PFIC shares disposed of during tax year. Enter the date(s) on which the partnership disposed of any block of stock in the PFIC during the partnership's tax year, if any, using the format YYYYMMDD.

Column (m). Amount realized on disposition of PFIC shares. If the partnership disposed of any block of stock in the PFIC during the partnership's tax year, enter the amount realized by the partnership on each disposition.

Column (n). Tax basis of PFIC shares on dates of disposition. If the partnership disposed of any block of stock in the PFIC during the partnership's tax year, enter the partnership's tax basis in the shares of the PFIC on the date of disposition.

Schedule K-3. Enter the partner's share, through its ownership in the partnership, of the partnership's tax basis in the PFIC shares. The partner's share of the basis in the PFIC shares should include any applicable adjustments specific to the partner, such as section 743(b) adjustments or adjustments made under the PFIC regime. See sections 1293(d) and 1296(b), and Regulations sections 1.1291-9, 1.1291-10, 1.1297-3, and 1.1298-3 for adjustments made under the PFIC regime.

Column (o). Gain (loss) on disposition of PFIC shares. Enter the partnership's gain or loss on the disposition of PFIC shares. This equals column (m) minus column (n).

Schedule K-2, Part VIII (Partnership's Interest in Foreign Corporation Income (Section 960)); and Schedule K-3, Part VIII (Partner's Interest in Foreign Corporation Income (Section 960))

Note. Certain partners will use the following information to figure a deemed paid foreign tax credit on Form 1118.

Reporting currency. Report all amounts on Part VIII in functional currency.

The partnership must complete a separate Schedule K-2, Part VIII, for each CFC for which it has a direct or indirect partner (through pass-through entities only) who is a U.S. shareholder of the CFC required to include in gross income a subpart F income inclusion and/or section 951(a)(1)(B) inclusion of the CFC, or figure section 951A inclusions by taking into account GILTI items of the CFC.

Schedule K-3, Part VIII, must be completed and provided to direct or indirect partners (through pass-through entities only) who are U.S. shareholders of the CFC required to include in gross income a subpart F income inclusion and/or section

951(a)(1)(B) inclusion of the CFC, or figure section 951A inclusions by taking into account GILTI items of the CFC.

A partnership that doesn't have or receive sufficient information or notice regarding a direct or indirect partner must presume the partner is a U.S. shareholder of the CFC required to include in gross income a subpart F income inclusion and/or section 951(a)(1)(B) inclusion of the CFC, or figure section 951A inclusions by taking into account GILTI items of the CFC and must complete Schedules K-2 and K-3, Part VIII, accordingly.

Exceptions. Part VIII isn't required to be completed for the following.

- Dormant foreign corporations (as defined in section 3 of Rev. Proc. 92-70).
- CFCs that didn't pay or accrue any foreign income taxes.

In general, a domestic corporate U.S. shareholder of a CFC is deemed to pay all or a portion of the foreign income taxes paid or accrued by the CFC that are properly attributable to subpart F income or tested income of the CFC that the U.S. shareholder includes in its gross income as provided in sections 960(a) and (d). See also section 1293(f) regarding QEF inclusions from a PFIC. The domestic corporate U.S. shareholder may claim a credit for such foreign taxes, subject to certain limitations. Individuals, estates, and trusts may also claim a foreign tax credit for foreign income taxes deemed paid for a CFC if they make an election under section 962.

To figure the foreign taxes deemed paid by a corporate U.S. shareholder, the income, deductions, and taxes of the CFC must be assigned to separate categories of income and then included in income groups within those separate categories; see Regulations section 1.960-1(c)(1). The applicable separate categories of income are general category income, passive category income, and section 901(j) income. The income groups include the subpart F income groups, the tested income group, and the residual income group. Each single item of foreign base company income (as defined in Regulations section 1.954-1(c)(1)(iii)) is a separate subpart F income group; see Regulations section 1.960-1(d)(2)(ii)(B).

Line 1f allows the partnership to report foreign personal holding company income under section 954(c)(1) including income from notional principal contracts, payments in lieu of dividends, and personal service contracts. A partnership must report a separate line 1f for each of these income groups. For more information, see sections 954(c)(1)(F), (G), and (H). Income within one of these income groups may need to be further subdivided on separate lines to the extent it's attributable to more than one country, source of income, passive grouping, etc. See the instructions for Schedule Q (Form 5471).

The tested income group consists of tested income within a section 904 category; see Regulations section 1.960-1(d)(2)(ii)(C). The residual income group consists of any income not in the other income groups or in a PTEP group; see Regulations section 1.960-1(d)(2)(ii)(D). See Regulations section 1.960-3(c)(2) regarding the PTEP groups. The PTEP groups aren't reported on this Part VIII.

Lines 1 through 4. The partnership's share of the CFC's net income in each of the subpart F income groups, tested income group, and residual income group by unit is reported on lines 1 through 4. The CFC's net income and taxes in each of these groups are figured on Schedule Q (Form 5471), and then included in Schedules K-2 and K-3, Part VIII, columns (iii) and (iv), respectively. See the instructions for Schedule Q (Form 5471) for the meaning of unit.

However, don't include on line 1 (including lines 1a through 1j and any subset lines (1), (2), etc., under line 1) any amounts excluded from subpart F income under the high-tax exception in section 954(b)(4); these amounts are reported on line 4 (and on subset lines (1), (2), etc., under line 4).

Also, don't include on line 3 (or subset lines (1), (2), etc., under line 3) any amounts excluded under the GILTI high-tax exclusion in Regulations section 1.951A-2(c)(7); these amounts are reported on line 4 (including any subset lines (1), (2), etc., under line 4).

The PTEP groups aren't reported on this Part VIII. Don't report by unit for the following subpart F income groups: (a) international boycott income; (b) bribes, kickbacks, and other payments; and (c) section 901(j) income. Also don't report by unit for the recaptured subpart F income group.

On Schedule K-2, Part VIII, the partnership reports in column (ii) its share of the CFC's net income by income groups and by units. In column (iii), the partnership reports the CFC's total net income by income groups and units as reported in Schedule Q (Form 5471), column (xvi). In Schedule K-2, Part VIII, column (iv), the partnership reports the CFC's current year foreign taxes for which credit is allowed by income groups and units as reported in Schedule Q (Form 5471), column (xii). In Schedule K-2, Part VIII, column (i), consistent with the reporting requirement on Form 1118, enter the two-letter code (from the list at *IRS.gov/CountryCodes*) of each foreign country and U.S. territory within which income is sourced and/or to which taxes were paid or accrued. Enter "US" for income sourced in the United States. Don't enter "various" or "OC" for the country code. Don't enter a country in Schedule K-2, Part VIII, line 5, column (i), later. See the instructions for line D for further information. See also the instructions for Part I, box 13, for information regarding temporary relief provided by Notice 2023-55. If a partnership applies temporary relief, include foreign taxes that are creditable under temporary relief in Part VIII, column (iv).

On Schedule K-3, Part VIII, the partnership reports each partner's share of the net income in the income group by unit and country.

Enter "US" for income sourced in the United States.

Line A. On line A, enter the EIN or reference ID number of the CFC as listed on Form 5471. Don't enter "FOREIGNUS" or "APPLIED FOR."

Line B. The partnership must file separate Schedules K-2 and K-3, Part VIII, to report the net income or loss of the CFC in each separate category. Use the applicable code from the table below.

Category of Income Codes

Code	Category of income
PAS	Passive category income
901j	Section 901(j) income
GEN	General category income

Line C. For passive category income, separate Schedules K-2 and K-3, Part VIII, must be completed for each applicable grouping under Regulations section 1.904-4(c). This includes the groups in Regulations section 1.904-4(c)(3) reported on Schedule Q (Form 5471).

The partnership should use the following codes to report each of these groupings for each unit.

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Passive Group Codes

Code	Passive group
i	All passive income received during the tax year that is subject to a withholding tax of 15% or greater must be treated as one item of income. See Regulations section 1.904-4(c)(3)(i).
ii	All passive income received during the tax year that is subject to a withholding tax of less than 15% (but greater than zero) must be treated as one item of income. See Regulations section 1.904-4(c)(3)(ii).
iii	All passive income received during the tax year that is subject to no withholding tax or other foreign tax must be treated as one item of income. See Regulations section 1.904-4(c)(3)(iii).
iv	All passive income received during the tax year that is subject to no withholding tax but is subject to foreign tax other than a withholding tax must be treated as one item of income. See Regulations section 1.904-4(c)(3)(iv).

Example 15—Part VIII: subpart F income group reporting by unit. In Year 1, USP, a domestic partnership, wholly owns foreign corporation CFC, with reference ID number 1234, and the CFC owns an FDE organized in Country X. CFC has two separate units, the FDE and the CFC itself. See the tables for *Example 15*.

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Example 15. Foreign Source Income

For the Year 1 tax year, the separate units have the following foreign source income.

	Tax	Country code	Net income
Country X FDE passive interest income	20% withholding tax	AA	100u
CFC passive rental income	10% withholding tax	YY	50u
CFC general category tested income	No tax	ZZ	300u

Example 15. Partnership USP's First Schedule K-2, Part VIII

USP completes Schedule K-2, Part VIII, as shown below.

A	Enter EIN or reference ID number of CFC:	1234
B	Separate category (enter code—see instructions)	PAS
C	If PAS was entered on line B, enter the applicable grouping under Regulations section 1.904-4(c). See instructions	i

Enter amounts in functional currency of the foreign corporation (unless otherwise noted).	**(i)** Country code	**(ii)** Partnership's share of foreign corporation's net income (functional currency)	**(iii)** Foreign corporation's total net income (functional currency)	**(iv)** Foreign corporation's current year foreign taxes for which credit allowed (U.S. dollars)
1 Subpart F income groups				
a Dividends, interest, rents, royalties, and annuities (total)				
(1) Unit: Country X FDE	AA	100u	100u	$20

Example 15. Partnership USP's Second Schedule K-2, Part VIII

USP completes another Schedule K-2, Part VIII, as shown below.

A	Enter EIN or reference ID number of CFC:	1234
B	Separate category (enter code—see instructions)	PAS
C	If PAS was entered on line B, enter the applicable grouping under Regulations section 1.904-4(c). See instructions	ii

Enter amounts in functional currency of the foreign corporation (unless otherwise noted).	**(i)** Country code	**(ii)** Partnership's share of foreign corporation's net income (functional currency)	**(iii)** Foreign corporation's total net income (functional currency)	**(iv)** Foreign corporation's current year foreign taxes for which credit allowed (U.S. dollars)
1 Subpart F income groups				
a Dividends, interest, rents, royalties, and annuities (total)				
(1) Unit: CFC	YY	50u	50u	$5

Example 15. Partnership USP's Third Schedule K-2, Part VIII

USP completes another Schedule K-2, Part VIII, as shown below.

A	Enter EIN or reference ID number of CFC:	1234
B	Separate category (enter code—see instructions)	GEN

Enter amounts in functional currency of the foreign corporation (unless otherwise noted).	**(i)** Country code	**(ii)** Partnership's share of foreign corporation's net income (functional currency)	**(iii)** Foreign corporation's total net income (functional currency)	**(iv)** Foreign corporation's current year foreign taxes for which credit allowed (U.S. dollars)
3 Tested income group (total)				
(1) Unit: CFC	ZZ	300u	300u	$0

USP also completes Schedule K-3, Part VIII, with each partner's share of the partnership's net income in each income group. On Schedule K-3, Part VIII, USP also includes the CFC's total net income and the CFC's current year foreign taxes for which credit is allowed in each income group.

Line D. If net income in an income group is sourced from more than one country, check the box on line D, and attach a statement to indicate that you have expanded Part VIII to report these additional countries on both Schedules K-2 and K-3.

Example 16—Part VIII: more than two source countries. In Year 1, USP, a domestic partnership, wholly owns foreign corporation CFC, with reference ID number 1234. USP has two domestic corporate partners. CFC has only one unit, the CFC itself, and no other separate units. CFC has general category foreign source foreign base company sales income (FBCSI) sourced in Country A of 100u and general category foreign source FBCSI sourced in Country B of 50u and general category foreign source FBCSI sourced in Country C of 30u. The country code for Country A is AA, the country code for Country B is BB, and the country code for Country C is CC. See the tables for *Example 16*.

Example 16 Attachment (Expansion). USP also completes Schedule K-3, Part VIII, with each partner's share of the partnership's net income in each subpart F income group. USP attaches to Schedule K-3 the same schedule it attaches to Schedule K-2, however, with each partner's share of the income in each subpart F income group, by country.

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Example 16. Schedule K-2, Part VIII

USP completes Schedule K-2, Part VIII, as shown below.

A	Enter EIN or reference ID number of CFC:	1234
B	Separate category (enter code—see instructions)	GEN
D	Check the box and attach a statement if there is more than one source country for a line	☑

Enter amounts in functional currency of the foreign corporation (unless otherwise noted).	**(i)** Country code	**(ii)** Partnership's share of foreign corporation's net income (functional currency)
1 Subpart F income groups		
g Foreign base company sales income (total)		180u
(1) Unit: CFC	AA	100u
(2) Unit: CFC	BB	50u

Example 16. Attachment (Expansion)

USP attaches to Schedule K-2 the following schedule to expand line 1g to include another line.

A	Enter EIN or reference ID number of CFC:	1234
B	Separate category (enter code—see instructions)	GEN
D	Check the box and attach a statement if there is more than one source country for a line	☑

Enter amounts in functional currency of the foreign corporation (unless otherwise noted).	**(i)** Country code	**(ii)** Partnership's share of foreign corporation's net income (functional currency)
1 Subpart F income groups		
g Foreign base company sales income (total)		180u
(3) Unit: CFC	CC	30u

Line E. The partnership should check the box and complete a separate Part VIII for U.S. source income in each separate category.

Line F. If the foreign corporation has foreign oil and gas extraction income (FOGEI) or foreign oil related income (FORI), the partnership should check the box and complete a separate Part VIII indicating the amount of FOGEI and FORI in each grouping. The partnership should check box 2 on Part I and complete Schedule I (Form 1118). See the instructions for Part I, box 2.

Line G. Enter the functional currency of the foreign corporation as reported on Form 5471, line 1h.

Schedule K-2, Part IX (Partners' Information for Base Erosion and Anti-Abuse Tax (Section 59A)); and Schedule K-3, Part IX (Partner's Information for Base Erosion and Anti-Abuse Tax (Section 59A))

Certain partners will use the following information to complete Form 8991. This Part IX of Schedules K-2 and K-3 must be completed by a partnership to assist its corporate partners in determining if they're subject to the BEAT, and to figure their BEAT, if any. This information includes the partner's share of the partnership's gross receipts, the partner's amount of base erosion payments made through the partnership, and the partner's base erosion tax benefits.

The BEAT is generally levied on certain large corporations that have deductions and certain other items paid or accrued to foreign related parties (a base erosion payment) that are 3% of their total deductions or higher (2% in the case of certain banks or registered securities dealers), a determination referred to as the "base erosion percentage test." Partnerships aren't subject to the BEAT; however, corporate partners of a partnership that are applicable taxpayers under Regulations section 1.59A-2 may be subject to the BEAT. Except for purposes of determining a partner's base erosion tax benefits under Regulations section 1.59A-7(d)(1), and whether a taxpayer is a registered securities dealer, BEAT determinations are made by the partner. See Regulations section 1.59A-7 for further information regarding the application of section 59A to partnerships, and the Instructions for Form 8991 for additional information on whether a corporate partner is an applicable taxpayer subject to the BEAT.

For the partnership to complete Schedules K-2 and K-3, Part IX, the foreign related parties of each partner must be identified, subject to the exception for small partners. It is expected that the partnership will collaborate with its partners to identify the foreign related parties of each partner. A foreign related party of the partner is a foreign person that is:

- Any 25% owner of the applicable taxpayer (as defined in Regulations section 1.59A-1(b)(17)(ii)(A)),
- Any person who is related (within the meaning of section 267(b) or 707(b)(1)) to the applicable taxpayer or any 25% owner of the applicable taxpayer, or
- Any other person who is related to the applicable taxpayer within the meaning of Regulations section 1.59A-1(b)(17)(i)(C).

Exception for small partners. Part IX of Schedule K-3 isn't required to be prepared by the partnership for small partners meeting the following three requirements.

- The partner's interest in the partnership represents less than 10% of the capital and profits of the partnership at all times during the tax year.
- The partner is allocated less than 10% of each partnership item of income, gain, loss, deduction, and credit for the tax year.
- The partner's interest in the partnership has an FMV of less than $25 million on the last day of the partner's tax year, determined using a reasonable method.

See Regulations section 1.59A-7(d)(2) for further information regarding the application of the exception for small partners.

Exception for certain other partners. The partnership doesn't need to complete Schedule K-3, Part IX, for a partner that is an individual.

The partnership doesn't need to complete Schedule K-3, Part IX, for a corporate partner that is an S corporation.

The partnership should complete Schedule K-3, Part IX, Section 1, lines 1 through 4, for partners that are RICs and REITs but doesn't need to complete Section 2 for these partners.

Section 1—Applicable Taxpayer

Lines 1 through 4, column (a). Enter the partnership's total gross receipts for the current year and each of the 3 preceding tax years. The determination of the partnership's gross receipts is made in accordance with Temporary Regulations section 1.448-1T(f)(2)(iv).

Lines 1 through 4, column (b). Complete lines 1 through 4, column (b), if the partnership has a foreign partner or has reason to know it has a foreign partner through a partner that is a pass-through entity. Enter the partnership's total gross ECI receipts for the current year and each of the 3 preceding tax years which the foreign partner(s) would take into account as ECI. If the foreign partner(s) is subject to tax on a net basis pursuant to an applicable income tax treaty of the United States, enter the gross receipts that would be attributable to transactions taken into account in determining its net taxable income.

Lines 1 through 4, column (c). Complete lines 1 through 4, column (c), if the partnership has a foreign partner or has reason to know it has a foreign partner through a partner that is a pass-through entity. Enter the total non-ECI gross receipts as the difference between column (a) and column (b).

Schedule K-3. For purposes of section 59A, each partner in a partnership includes on its Schedule K-3, Part IX, the share of partnership gross receipts in proportion to the partner's distributive share (as determined under sections 704(b) and (c)) of items of gross income that were taken into account by the partnership under section 703 or 704(c) (such as curative or remedial items under Regulations section 1.704-3(c) or (d)).

Line 5, column (a). Amounts included in the denominator of the base erosion percentage as described in Regulations section 1.59A-2(e)(3). Enter the amount of deductions and other items allocated to the partners from the partnership that will be included in the denominator of the partners' base erosion percentage. For a description of deductions that aren't included in the denominator, see Regulations section 1.59A-2(e)(3)(ii).

Section 2—Base Erosion Payments and Base Erosion Tax Benefits

Column (b). Total base erosion payments. For purposes of determining whether a payment or accrual by a partnership is a base erosion payment, any amount paid or accrued by the partnership is treated as paid or accrued by each partner based on the partner's distributive share of the item of deduction for that amount. A partner that is an applicable taxpayer has a base erosion payment for any amount paid or accrued by the partnership to a foreign person (as defined in Regulations section 1.59A-1(b)(10)) that is a related party to the partner (as defined in Regulations section 1.59A-1(b)(12)) for which a deduction is allowable under chapter 1 and for certain other items on lines 13 and 15. See Regulations section 1.59A-3 and the Instructions for Form 8991 for more information on the definition of a base erosion payment.

Column (c). Total base erosion tax benefits. A partner's distributive share of any deduction or reduction in gross receipts attributable to a base erosion payment is the partner's base erosion tax benefit. A partner's base erosion tax benefit is determined separately for each asset, payment, or accrual, as applicable, and isn't netted with other items. A partner's base erosion tax benefit may be more than the partner's base erosion payment (for example, in the case of special allocations made by the partnership). See the Instructions for Form 8991 and Regulations section 1.59A-7(d) for further information concerning a partner's base erosion tax benefits.

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General. Don't include amounts that a partner doesn't take into account pursuant to the exception for certain small partners for:

- Line 8, columns (b) and (c);
- Line 9, columns (b) and (c);
- Line 10a, columns (b) and (c);
- Line 11, columns (b) and (c);
- Line 12, columns (b) and (c);
- Line 13, columns (b) and (c);
- Line 14a, columns (b) and (c);
- Line 15, columns (b) and (c); and
- Line 16, columns (b) and (c).

See Regulations section 1.59A-7(d)(2) and *Exception for small partners,* earlier. For Schedule K-2, Part IX, report the total allocated to all partners, and for Schedule K-3, Part IX, report the amount allocated to each individual partner.

Don't complete section 2 if the partnership has determined that no amounts were paid or accrued by the partnership to a foreign person (as defined in Regulations section 1.59A-1(b)(10)) that is a related party to any partner for which a deduction is allowable under chapter 1 and for certain other items on Schedule K-2, Part IX, Section 2, lines 13 and 15. The partnership's determination that it hasn't made any base erosion payment should be based on its collaboration with its partners to identify any foreign related parties.

Line 7. Cost sharing transaction payments.

Column (a). Enter the amount paid or accrued as cost sharing transaction payments under Regulations section 1.482-7(b)(1)(i) by the partnership for the tax year.

Column (b). Enter the amount paid or accrued as cost sharing transaction payments under Regulations section 1.482-7(b)(1)(i) to all foreign persons that are related parties of any of the partners.

Column (c). Enter the amount of the partners' base erosion tax benefits attributable to amounts paid or accrued as cost sharing transaction payments under Regulations section 1.482-7(b)(1)(i) to all foreign persons that are related parties of any of the partners.

Line 8. Purchase or creation of property rights for intangibles (patents, trademarks, etc.).

Column (a). Enter the amount paid or accrued by the partnership in connection with the acquisition or creation of intangible property rights (patents, copyrights, trademarks, trade secrets, etc.) that is subject to the allowance for depreciation (or amortization in lieu of depreciation) for the tax year.

Column (b). Enter the amount paid or accrued to all foreign persons that are related parties of any of the partners in connection with the acquisition or creation of intangible property rights (patents, copyrights, trademarks, trade secrets, etc.) that is subject to the allowance for depreciation (or amortization in lieu of depreciation).

Column (c). Enter the amount of the partners' base erosion tax benefits attributable to deductions allowed under chapter 1 for the tax year for depreciation (or amortization in lieu of depreciation) with respect to intangible property rights acquired in the current year or prior years from all foreign persons that are related parties of any of the partners.

Line 9. Rents, royalties, and license fees.

Column (a). Enter the amount paid or accrued by the partnership for the tax year for the use or right to use tangible or intangible property resulting in rents, royalties, and/or license fees.

Column (b). Enter the amount paid or accrued to all foreign persons that are related parties of any of the partners for the use or right to use tangible or intangible property resulting in rents, royalties, and/or license fees.

Column (c). Enter the amount of the partners' base erosion tax benefits attributable to amounts paid or accrued to all foreign persons that are related parties of any of the partners for the use or right to use tangible or intangible property that results in rents, royalties, and/or license fees.

Line 10a. Compensation/consideration paid for services not excepted by section 59A(d)(5).

Column (a). Enter the amount paid or accrued by the partnership for the tax year as compensation or consideration for services, excluding any amount that qualifies for the services cost method exception in section 59A(d)(5).

Column (b). Enter the amount paid or accrued to all foreign persons that are related parties of any of the partners as compensation or consideration for services, excluding any amount that qualifies for the services cost method exception in section 59A(d)(5).

Column (c). Enter the amount of the partners' base erosion tax benefits attributable to amounts paid or accrued to all foreign persons that are related parties of any of the partners representing compensation or consideration paid for services, excluding amounts qualifying for the services cost method exception in section 59A(d)(5).

Line 10b. Compensation/consideration paid for services excepted by section 59A(d)(5).

Column (a). Enter the amounts paid or accrued by the partnership to any foreign person that is a related party of any of the partners for services qualifying for the services cost method exception in section 59A(d)(5).

Line 11. Interest expense.

Column (a). Enter the amount of interest paid or accrued by the partnership for the tax year (excluding interest paid or accrued in a prior year treated as paid or accrued in the current year under section 163(j) or similar provisions).

Column (b). Enter the amount of interest expense paid or accrued to all foreign persons that are related parties of any of the partners (excluding interest paid or accrued in a prior year treated as paid or accrued in the current year under section 163(j) or similar provisions).

Column (c). Enter the amount of the partners' base erosion tax benefits attributable to interest expense paid or accrued by the partnership that is allowed as a deduction in the current tax year. If the partner is a foreign person, include the individual lines from Worksheet A, column (c), on the applicable Schedule K-3.

Schedule K-3. When completing Schedule K-3, line 11, if the partner is a foreign person, enter the total from Worksheet A, column (a), in the partner's Schedule K-3, line 11, column (a); enter the total from Worksheet A, column (b), in Schedule K-3, line 11, column (b); and enter the total from Worksheet A, column (c), in Schedule K-3, line 11, column (c).

The partnership is required to complete Worksheet A for all partnership-related items and a separate Worksheet A for each foreign partner's share of the amounts reported on the partnership's Worksheet A. The partnership is also required to attach a statement containing the partner's share of the information on Worksheet A to the partner's Schedule K-3.

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Worksheet A

Interest Paid or Accrued by the Partnership

	(a)	(b)	(c)
	Total interest paid or accrued in the current year	Interest paid or accrued to foreign related parties of the foreign partner in the current year	Interest expense paid or accrued to foreign related parties of the foreign partner that is allowed as a deduction in the current year
(1) Interest expense on liabilities described in Regulations section 1.882-5(a)(1)(ii)(A) or (B)			
(2) Interest paid on U.S. -booked liabilities under Regulations section 1.882-5(d)(2)(vii)			
(3) Interest paid on all other liabilities of the partnership			
Totals. Combine line (1) through line (3)			

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Line 12. Payments for the purchase of tangible personal property.

Column (a). Enter the amount paid or accrued by the partnership for the tax year for the purchase of tangible personal property.

Column (b). Enter the amount paid or accrued to all foreign persons that are related parties of any of the partners for the purchase of tangible personal property.

Column (c). Enter the amount of base erosion tax benefits attributable to amounts paid or accrued to any foreign persons that are related parties of any of the partners for the purchase of tangible property.

Line 13. Premiums and/or other considerations paid or accrued for insurance and reinsurance as covered by sections 59A(d)(3) and 59A(c)(2)(A)(iii).

Column (a). Enter the amount paid or accrued by the partnership for the tax year for reinsurance.

Column (b). Enter the amount of any premiums or other consideration paid or accrued to all foreign persons that are related parties of any of the partners for reinsurance taken into account under section 803(a)(1)(B) or 832(b)(4)(A).

Column (c). Enter the amount of the partners' base erosion tax benefits attributable to premiums or other consideration as described in section 59A(c)(2)(A)(iii) paid or accrued to any foreign person that is a related party of any of the partners for reinsurance.

Line 14a. Nonqualified derivative payments.

Column (a). Enter the amount paid or accrued by the partnership for the tax year attributable to derivative contracts as defined in section 59A(h)(4).

Column (b). Enter the amount paid or accrued to all foreign persons that are related parties of any of the partners with respect to derivative contracts that aren't eligible for the qualified derivative payment exception under section 59A(h) and Regulations section 1.59A-6. Don't include any amount paid that is a qualified derivative payment in line 14a, column (b).

Column (c). Enter the amount of base erosion tax benefits attributable to nonqualified derivative payments paid or accrued to any foreign person that is a related party of any of the partners.

Line 14b. Qualified derivative payments excepted by section 59A(h). Enter the total amount of qualified derivative payments paid or accrued by the partnership. Generally, a qualified derivative payment is any payment made by the taxpayer pursuant to a derivative contract, provided that the taxpayer (a) recognizes gain or loss on the derivative contract as if it were sold for its FMV on the last business day of the tax year; (b) treats the gain or loss as ordinary; and (c) treats the character of all other items of income, deduction, gain, or loss of a payment pursuant to the derivative as ordinary. A payment isn't a qualified derivative payment if the payment would be treated as a base erosion payment if it were not made pursuant to a derivative (such as interest, royalty, or services income). For a contract with both derivative and nonderivative components, a payment isn't a qualified derivative payment if it is properly allocable to the nonderivative component.

Line 15. Payments reducing gross receipts made to surrogate foreign corporation.

Column (a). Enter the amount paid or accrued by the partnership for the tax year to certain expatriated entities described in section 59A(d)(4)(C)(i).

Column (b). Enter the amount paid or accrued to certain expatriated entities that results in a reduction of the gross receipts of the partnership. This amount includes payments to a surrogate foreign corporation that is a related party of the partner, but only if the entity first became a surrogate foreign corporation after November 9, 2017. The amount also includes payments to a foreign person that is a member of the same expanded affiliated group, as defined in section 7874(c)(1), as the surrogate foreign corporation. A surrogate foreign corporation is defined in section 7874(a)(2)(B) but doesn't include a foreign corporation that is treated as a domestic corporation under section 7874(b).

Column (c). Enter the base erosion tax benefits attributable to amounts paid or accrued to certain expatriated entities described in column (b) resulting in a reduction of gross receipts of the partnership.

Line 16. Other payments—specify.

Column (a). Enter the amount paid or accrued for the tax year by the partnership that hasn't been included on lines 7 through 15.

Column (b). Enter the amount paid or accrued to any foreign person that is a related party of any of the partners that is a base erosion payment that hasn't otherwise been included on lines 7 through 15.

Column (c). Enter the amount of the partners' base erosion tax benefits related to other specified base erosion payments not listed in any of the categories on lines 7 through 15.

Attachment. For amounts reported on line 16, attach a statement to both Schedules K-2 and K-3 (for distributive share) describing the type and amount of other payments, using the same column headings as specified in this schedule: Total base erosion payment and Total base erosion tax benefits. For each type of payment, the attachment must identify the relationship of a partner to the foreign related party consistent with the categories and instructions for columns (b) and (c) of this schedule.

Line 17, column (c)—Base erosion tax benefits related to payments reported on lines 6 through 16, on which tax is

imposed by section 871, 881, or 884(f), with respect to which tax has been withheld under section 1441 or 1442 at the 30% statutory withholding tax rate or subject to tax under Regulations section 1.884-4(a)(2)(ii) at the 30% statutory rate. Enter the aggregate amount of the partners' base erosion tax benefits, reported on lines 6 through 16, on which either (a) tax is imposed under section 871(a) or 881, and that has been deducted and withheld under section 1441 or 1442 at the 30% statutory withholding tax rate; or (b) tax is imposed under section 884(f) at a 30% statutory rate and the tax is reported and paid under Regulations section 1.884-4(a)(2)(iv).

Line 18, column (c)—Portion of base erosion tax benefits reported on lines 6 through 16, on which tax is imposed by section 871 or 881, with respect to which tax has been withheld under section 1441 or 1442 at reduced withholding rate pursuant to income tax treaty or subject to reduced rate of tax under Regulations section 1.884-4(a)(2)(ii). Multiply the amount of the base erosion tax benefit by a fraction equal to the rate of tax imposed under the treaty over the 30% (0.30) statutory rate. Enter the aggregate amount of the partners' base erosion tax benefits, reported on lines 6 through 16, on which either (a) tax is imposed under section 871(a) or 881, and that has been deducted and withheld under section 1441 or 1442 at the 30% statutory withholding tax rate; or (b) tax is imposed under section 884(f) at a 30% statutory rate and the tax is reported and paid under Regulations section 1.884-4(a)(2)(iv).

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Worksheet B

Part IX, Section 2, Line 18, Column (c)

A	B	C	D	E
Type of base erosion payment	Amount of base erosion tax benefit	Treaty—reduced withholding rate	Divide column C by 30% (0.30) (round to 4 decimal places)	Multiply column B by column D
		%		
		%		
		%		
		%		
		%		
Add the amounts in column E and enter the total on line 18, column (c)				

Schedule K-2, Part X (Foreign Partners' Character and Source of Income and Deductions); and Schedule K-3, Part X (Foreign Partner's Character and Source of Income and Deductions)

Certain partners will use the following information to figure and report their U.S. tax liability on Forms 1040-NR and 1120-F, or other applicable forms.

In general, Schedules K-2 and K-3, Part X, must be filed by every partnership that has a foreign partner, or if a foreign person has a U.S. income tax reporting obligation for any item of partnership income, deduction, gain, or loss.

Exception. A domestic partnership that is required to file a partnership return isn't required to complete Schedules K-2 and K-3, Part X, if it doesn't have any ECI and the partnership (or another withholding agent) has met its withholding and reporting obligations under chapters 3 and 4 for its income.

Note. A foreign partner doesn't include an individual who is treated as a U.S. resident under section 7701(b)(3).

A partnership may rely on Form W-8, Certificate of Foreign Status, and Form W-9, Request for Taxpayer Identification Number and Certification, from its partners to determine whether it has a foreign partner. If a partner is a pass-through entity, the partner, or its authorized representative, may notify the partnership as to whether or not there is a foreign person with a U.S. income tax reporting obligation for a partnership item.

A partnership that doesn't have or receive sufficient information or notice regarding a partner should presume the partner is foreign or that a foreign person has a U.S. income tax reporting obligation for a partnership item and complete Schedules K-2 and K-3, Part X, accordingly.

Example 17—pass-through partner; need to complete Part X. A partnership doesn't receive notice from a pass-through partner regarding whether or not the pass-through partner has any partners or owners that are foreign persons and doesn't otherwise have the information necessary to make this determination. Because the partnership can't determine whether a foreign person has a U.S. income tax reporting obligation for a partnership item, it must complete Schedules K-2 and K-3, Part X, for the pass-through partner.

Any foreign person that earns ECI from U.S. or foreign sources or U.S. source FDAP income may have a U.S. tax obligation for its applicable tax year. Furthermore, the applicable tax rates and reporting requirements are different for ECI and U.S. source FDAP income. The partnership's reporting on Schedules K-2 and K-3, Part X, is necessary for a foreign person with a direct or indirect interest in the partnership to properly report and figure its U.S. income tax liability on any required U.S. income tax returns (for example, Form 1120-F, Form 1040-NR, and other applicable forms). Therefore, a partnership must report to its partners, as needed, on Schedule K-3, Part X, their distributive shares of any U.S. or foreign source partnership effectively connected items, any U.S. source FDAP income, and any income that isn't effectively connected or FDAP of the partnership but that may be effectively connected to the foreign person's conduct of a U.S. trade or business.

In addition, unless otherwise noted, the partnership must complete Schedule K-3, Part X, to report each partner's distributive share of the amounts reported on Schedule K-2, Part X.

Note. Schedule K-3, Part X, doesn't need to be completed and provided to partners who are U.S. persons (as defined in section 7701(a)(30)) and not pass-through partners. A pass-through partner is a partnership required to file a return under section 6031(a), an S corporation, a trust (other than a wholly owned trust disregarded as separate from its owner for federal income tax purposes), and a decedent's estate. See Regulations section 301.6241-1(a)(5). Therefore, a partnership with one partner that is a nonresident alien (as defined in section 7701(b)(1)(B)) and another partner that is a U.S. citizen need only provide

Schedule K-3 to the nonresident alien partner. However, a partnership must complete Schedule K-2 with all of the partnership's information and not just the total of the information reported to the foreign partners on Schedule K-3.

Special rules for foreign partnerships. A foreign partnership that doesn't have ECI and files a partnership return under the modified filing obligations under Regulations section 1.6031(a)-1(b)(3)(iii) is only required to complete Schedules K-2 and K-3, Part X, if (a) it has a domestic pass-through partner that has a direct or indirect foreign owner, beneficiary, or partner; or (b) it knows or has reason to know that another withholding agent failed to meet its withholding and reporting obligations under chapters 3 and 4 for the income. An indirect owner, beneficiary, or partner is one that owns an interest in the domestic pass-through partner through a pass-through entity. The foreign partnership should presume that a domestic pass-through partner has a foreign owner, partner, or beneficiary if it doesn't have sufficient information or notice to make this determination.

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Section 1—Gross Income

The partnership uses Schedule K-2, Part X, Section 1, to report each item of the partnership's gross income and must generally report them as one of the following.

- U.S. source ECI in column (c).
- Foreign source ECI in column (d).
- Income from U.S. sources that is FDAP and isn't income effectively connected with the partnership's conduct of a U.S. trade or business (non-ECI) in column (e).
- Other U.S. source non-ECI in column (f).
- Foreign source non-ECI in column (g).

Each line in this section of the schedule corresponds to a line on Form 1065, Schedule K, lines 1 through 11. However, unlike the amounts on Form 1065, Schedule K, lines 1 through 11, the amounts in Section 1 are gross income amounts, not net income amounts. For a more detailed description of the types of income listed on each line, see the instructions for Form 1065, Schedule K.

FDAP. Amounts that are FDAP include the following.

- Interest (other than OID as defined in section 1273), dividends, rents, royalties, salaries, wages, premiums, annuities, compensation, and other passive gains, profits, and income.
- Gains described in section 631(b) or (c), relating to disposal of timber, coal, or domestic iron ore with a retained economic interest.
- Gains on a sale or exchange of an OID obligation, the amount of the OID accruing while the obligation was held unless this amount was taken into account on a payment.
- On a payment received on an OID obligation, the amount of the OID accruing while the obligation was held, if such OID wasn't previously taken into account and if the tax imposed on the OID doesn't exceed the payment received less the tax imposed on any interest included in the payment received. This rule applies to payments received for OID obligations issued after March 31, 1972. Certain OID isn't taxable for OID obligations issued after July 18, 1984. See section 881(c) for more details. For rules that apply to other OID obligations, see Pub. 515.
- Gains from the sale or exchange of patents, copyrights, and other intangible property if the gains are from payments that are contingent on the productivity, use, or disposition of the property or interest sold or exchanged.

For more information, see section 881(a) and Regulations section 1.881-2.

Column (a). Total. For each line in Section 1, enter in column (a) the total amount of the applicable gross income.

Column (b). Partner determination. For each line, enter in column (b) the amount of the applicable gross income the source of which must be determined by each partner individually. This includes income from the sale of most personal property other than inventory, depreciable property, and certain intangible property.

The source of income is important in determining how to report income on Part X of Schedules K-2 and K-3. Each type of income has its own sourcing rules. For more information on sourcing rules for particular items of income, see Pub. 514 and section 865.

Schedule K-3. For each line in Section 1, enter in column (b) the partner's distributive share of the applicable gross income the source of which needs to be determined by the partner. For each item of income in column (b), attach a statement identifying the column [(c), (e), or (f)] in which the income would be reported by the partnership if it were U.S. source and the column [(d) or (g)] in which the income would be reported by the partnership if it were foreign source. For example, if you have income from the sale of personal property and the source is based on the tax home of the partner under section 865, the statement should indicate both how the income should be characterized (as ECI, FDAP, or other) if it were U.S. source, and how it should be characterized (as ECI or non-ECI) if it were foreign source.

Column (c). U.S. source ECI. For each line in Section 1, enter the amounts of the applicable U.S. source gross income, as determined by the partnership, that are, or are treated as, effectively connected with the partnership's conduct of a U.S. trade or business.

If the partnership conducts a U.S. trade or business, report in column (c) any U.S. source income other than FDAP or capital gains.

Report U.S. source items of FDAP income or capital gains as ECI in column (c) only if the asset-use test, the business-activities test, or both tests (explained below) are met. If neither test is met, such items are generally not ECI. For more information, see section 864(c)(2) and Regulations section 1.864-4(c).

Note. See Regulations section 1.864-4(c)(5) for special rules relating to banking, financing, or similar business activities. Such rules apply to certain stocks and securities of a banking, financing, or similar business in lieu of the asset-use and business-activities tests.

Asset-use test. FDAP income and capital gains are ECI if such items are derived from assets used in, or held for use in, the conduct of a U.S. trade or business. For example, the following items are ECI.

- Income earned on a trade or note receivable acquired in the conduct of the U.S. trade or business.
- Interest income earned from the temporary investment of funds needed in the U.S. trade or business.

Business-activities test. FDAP income and capital gains are ECI if the activities of the U.S. trade or business were a material factor in the realization of the passive income items.

Other income treated as U.S. source ECI. If a partnership isn't engaged in a U.S. trade or business during the tax year, it will report amounts in column (c) if the partnership had one of the following.

- Current year income or gain from a sale or exchange of property or from performing services (or any other transaction) in any other tax year that would have been ECI if received by a foreign person in that other tax year (see section 864(c)(6)).
- Current year income or gain from a disposition of property that is no longer used or held for use in conducting a U.S. trade or

business within the 10-year period before the disposition that would have been ECI immediately before such cessation (see section 864(c)(7)).

- Gain or loss from disposing of a U.S. real property interest as defined in section 897(c).

Note. Such amounts are always U.S. source ECI and should never be reported in any other column.

If income is reported in column (c), see the Instructions for Form 8804, Annual Return for Partnership Withholding Tax, for any Form 8804 filing obligations.

Don't include gross rental real estate income in Schedule K-2, Part X, column (c), that isn't ECI to the partnership. Even if a foreign partner elects to treat the income as ECI, report these amounts in Schedule K-2, Part X, column (e). However, the partnership should report the partner's distributive share of income as ECI in Schedule K-3, Part X, column (c).

Schedule K-3. In addition to the partner's distributive share of the amounts reported in Schedule K-2, Part X, column (c), report in Schedule K-3, Part X, column (c), any U.S. source income that is subject to withholding under section 1446 based on a partner's Form W-8ECI, Certificate of Foreign Person's Claim That Income Is Effectively Connected With the Conduct of a Trade or Business in the United States, including U.S. source gross rental real estate income that the foreign partner elected to treat as ECI.

Column (d). Foreign source ECI. Enter in this column the amounts of the applicable gross income that are foreign source ECI. Foreign source income is ECI only in limited circumstances. If the partnership has an office or other fixed place of business in the United States, the following types of foreign source income it receives from that U.S. office are ECI.

- Rents or royalties received for the use outside the United States of intangible personal property described in section 862(a)(4) if derived from the active conduct of a U.S. trade or business.
- Gains or losses on the sale or exchange of intangible personal property located outside the United States or from any interest in such property if such gains or losses are derived in the active conduct of the trade or business in the United States.
- Dividends, interest, or amounts received for the provision of a guarantee of indebtedness, issued after September 27, 2010, if derived from the active conduct of a U.S. banking, financing, or similar business or if the principal business of the partnership is trading in stocks or securities for its own account.
- Income from the sale or exchange of inventory outside the United States through the U.S. office, unless the property is sold or exchanged for use, consumption, or disposition outside the United States and an office of the partnership in a foreign country materially participated in the sale. See section 865 for additional information regarding the source of this income.
- Any income or gain that is equivalent to any item of income or gain listed above must be treated in the same manner as such item for purposes of determining whether that income is foreign source ECI. See section 864(c)(5)(A) and Regulations section 1.864-7 for the definition of office or other fixed place of business in the United States. See sections 864(c)(5)(B) and (C) and Regulations section 1.864-6 for special rules for determining when foreign source income is from an office or other fixed place of business in the United States.

If income is reported in column (d), see the Instructions for Form 8804 for any Form 8804 filing obligation.

Column (e). U.S. source non-ECI (FDAP). For each line, enter in column (e) amounts of the applicable gross income if all of the following apply.

- The amount is FDAP (described earlier).
- The amount is includible in gross income. Therefore, receipts that are excluded from income (for example, interest income received on state and local bonds that is excluded under section 103) wouldn't be reported.
- The amount is received from U.S. sources.
- The amount received is non-ECI. Amounts that are ECI should be reported in column (c) or (d).
- The amount received isn't exempt (by the Code) from taxation. For example, interest on deposits that are exempted by section 881(d) wouldn't be included as income by a foreign partner. In addition, certain portfolio interest isn't taxable for obligations issued after July 18, 1984. See section 881(c) for more details.

If the partnership had U.S. source rental real estate income that wasn't ECI to the partnership, include such amounts in Schedule K-2, Part X, column (e). Foreign partners that have elected to treat any such amounts as ECI are required to report and figure their U.S. income tax liabilities in accordance with their ECI elections. Report this income in Schedule K-3, Part X, column (c), for such partners.

If income is reported in column (e), see the instructions for Forms 1042 and 1042-S for any filing obligation.

Schedule K-3. For each line in Section 1, enter in column (e) the partner's distributive share of the applicable income that is U.S source FDAP and not ECI. Don't include income subject to withholding under section 1446 based on a partner's Form W-8ECI or rental real estate income which a foreign partner has elected to treat as ECI. That income should instead be reported in column (c).

Column (f). U.S. source non-ECI (other). Include in this column U.S. source gross income amounts that aren't ECI and wouldn't be subject to tax in the hands of a foreign corporation under section 881 or in the hands of a nonresident alien under section 871(a). Such amounts include, for example, tax-exempt portfolio interest or municipal bond interest, U.S. source capital gains, and transportation income subject to tax under section 887.

Schedule K-3. Report the partner's distributive share of the amounts in Schedule K-2, Part X, column (f). For any amount that is transportation income subject to tax under section 887, also provide the partner the statement described in the instructions for Form 1040-NR, line 23c. If you owe this tax, you must attach a statement to your return that includes the information described in chapter 4 of Pub. 519.

Accrued OID reported on Form 1065. The amount of accrued OID reported on Form 1065, Schedule K, that isn't taxable to foreign partners should be reported as interest income in Schedule K-2, Part X, column (f). Attach a statement to Form 1065 for Part X clarifying that these amounts aren't taxable to foreign partners and don't need to be reported on the foreign partner's tax return. The partnership should take a similar approach for reporting a foreign partner's distributive share of OID amounts on Schedule K-3.

OID payments or gains taxable on a gross basis to a foreign partner. When the partnership receives payments on the OID instrument or gain on the sale or exchange of the OID instrument that are taxable on a gross basis to foreign partners under section 881(a)(3)(B) or section 871(a)(1)(C)(ii) (as applicable), these amounts should be reported in Schedule K-2, Part X, column (e), as interest income or gain, as appropriate. These amounts should also be entered as a negative adjustment in column (f) to ensure that the total OID reported on Part X reconciles with OID reported on Form 1065, Schedule K. Attach a statement explaining that the negative adjustment in column (f) is for reconciliation purposes only and isn't relevant to the foreign partner's tax liability and therefore doesn't need to be reported on the foreign partner's tax return. The partnership should take a

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similar approach for reporting distributive share amounts to a foreign partner on Schedule K-3.

Example 18—Part X; OID. In addition to other income and expense items, a partnership accrues $100 OID in Year 1 reported on Form 1065, Schedule K. On Schedule K-2, Part X, for Year 1, the partnership should report this amount as interest in column (f) (such amount is also included in column (a) for the total). In Year 2, the partnership receives a payment of $50 on the same instrument taxable to its foreign partners under section 881(a)(3)(B) or 871(a)(1)(C)(ii) (as applicable). On its Schedule K-2, Part X, for Year 2, the partnership should report $50 as interest in column (e) and ($50) as a reconciliation adjustment in column (f). The partnership should take the same approach for reporting a foreign partner's distributive share of OID amounts on Schedule K-3 in both Years 1 and 2.

Column (g). Foreign source non-ECI. For each line, enter amounts of gross income which are neither U.S. source nor ECI.

Line 8. Dividend equivalents. Except as provided in the next sentence, the partnership must report its dividend equivalents in columns (a) and (e). The partnership shouldn't report dividend equivalents for any partnership interest that the partnership knows is held directly and indirectly (including through one or more pass-through entities) by a partner that isn't subject to section 871(m). In such a case, the partnership should report dividend equivalents in columns (a) and (e) only for its other partnership interests.

Schedule K-3. Except as provided in the next sentence, the partnership must report its dividend equivalents in Schedule K-3, Part X, Section 1, line 8, columns (a) and (e), for its partnership interests. To the extent the partnership knows a partnership interest is held directly and indirectly (including through one or more pass-through entities) by a partner that isn't subject to section 871(m), it doesn't have to report allocations for that partnership interest in columns (a) and (e).

Line 11. Net long-term capital gain. Don't include gains reported on lines 12, 13, and 14 on line 11.

Line 12. Collectibles (28%) gain. Report collectibles gain on line 12 and not line 11.

Line 13. Unrecaptured section 1250 gain. Report unrecaptured section 1250 gain on line 13 and not on line 11. If gain is both unrecaptured section 1250 gain and net section 1231 gain, report the gain on line 13 and not on line 14, but include an attachment indicating the amount of unrecaptured section 1250 gain that is also net section 1231 gain.

Line 14. Net section 1231 gain. Report net section 1231 gain on line 14 and not on line 11 unless such amount is also unrecaptured section 1250 gain. See the instructions for line 13.

Line 20. Other income not included on lines 1 through 19. Determine other income without regard to any amount reported on line 8.

Section 2—Deductions, Losses, and Net Income

In computing a foreign corporation's or nonresident alien's ECI, deductions are allowed only if they're allocated and apportioned to income that is effectively connected with a U.S. trade or business as provided in sections 861(b), 873, and 882(c). To determine ECI, a foreign corporation and nonresident alien individual must allocate and apportion deductions and losses to gross income in the ECI statutory grouping and to gross income in the non-ECI residual grouping; see Regulations section 1.861-8(f)(1)(iv). For additional guidance for foreign corporations, see Schedule H (Form 1120-F) and Schedule I (Form 1120-F). For additional guidance for nonresident aliens, see the Instructions for Form 1040-NR.

Use Section 2 to report the partnership's deductions and losses that will be utilized to determine the foreign partner's ECI. The line items on Section 2 generally correspond to the deductions separately reported on Form 1065, Schedule K. On Schedule K-3, Part X, report the partner's share of the amounts reported by the partnership on Schedule K-2, Part X.

Column (b). Partner determination. Certain deductions and losses must be allocated and apportioned by the partner, for example, R&E expenses and interest expense.

Columns (c) and (d). Partnership determination—ECI. Enter deductions definitely related and allocated to ECI under, for example, Regulations sections 1.861-8 through 1.861-20 and Temporary Regulations sections 1.861-8T and -9T.

CAUTION *Don't include deductions attributable to gross rental real estate income in Schedule K-2, Part X, column (c), that isn't ECI to the partnership. Even if a foreign partner elects to treat the income as ECI, report these deductions in Schedule K-2, Part X, column (e). However, the partnership should report the partner's distributive share of deductions in Schedule K-3, Part X, column (c).*

Columns (e) through (g). Partnership determination—non-ECI. Enter deductions definitely related and allocated to non-ECI under, for example, Regulations sections 1.861-8 through 1.861-20 and Temporary Regulations sections 1.861-8T and -9T.

Line 2. R&E expenses. In general, R&E expenses are allocated and apportioned by the partner and reported in column (b). See Regulations section 1.861-17.

Line 7. Interest expense on U.S.-booked liabilities. The partnership reports its interest expense on U.S.-booked liabilities as described in Regulations section 1.882-5(d)(2)(vii). This is relevant for determining the foreign corporation's interest expense allocable to ECI.

Line 10. Section 59(e)(2) expenditures. Don't include R&E expenses on this line. Instead, include R&E expenses that are also section 59(e)(2) expenditures on line 2.

Line 12. Net long-term capital loss. Don't include losses reported on line 13.

Line 13. Collectibles loss. Report collectibles loss on line 13 and not on line 12.

Line 15. Other losses. Each loss must be separately reported and shouldn't be combined on line 15. Instead, if there are more than two other losses during the year, attach a statement to both Schedules K-2 and K-3 to expand the lines to report the amount of each additional loss.

Line 16. Charitable contributions. Charitable contributions may be deducted whether or not they're effectively connected with a U.S. trade or business; see sections 873(b)(2) and 882(c)(1)(B), and Regulations section 1.882-4(b) for more information. Charitable contribution deductions are apportioned solely to U.S. source gross income; see Regulations section 1.861-8(e)(12). Include amounts reported on line 16 in column (c).

Lines 17 and 18. Other deductions. Enter other types of deductions not described in the prior line items. If the partnership has more than one other type of deduction, separately identify each type of deduction on lines 17 and 18. If there are more than two types of other deductions, attach a statement to both Schedules K-2 and K-3 to expand the schedules to include information on Section 2 identifying the amount and type of deduction.

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Section 3—Allocation and Apportionment Methods for Deductions

Section 3 provides information a partner may use to apportion deductions to ECI or non-ECI. See Regulations sections 1.861-8 through 1.861-20 and Temporary Regulations sections 1.861-8T and -9T for more detailed information. The ratios listed below generally correspond to the ratios on Schedule H (Form 1120-F), Part III.

On Schedule K-3, Part X, report the partner's share of the amounts reported by the partnership on Schedule K-2, Part X.

Line 1a. Gross ECI. Enter the partnership's gross ECI from Section 1, line 21, sum of columns (c) and (d).

Line 1b. Worldwide gross income. Enter the partnership's worldwide gross income from Section 1, line 21, column (a).

Line 2a. Average U.S. assets (inside basis). Report the partnership's basis in its average U.S. assets for purposes of applying the asset method as defined in Regulations section 1.884-1(d)(3)(ii) to calculate interest expense under Regulations section 1.882-5(b).

Line 2b. Worldwide assets. Report the partnership's basis in its average worldwide assets for purposes of Regulations section 1.882-5(b) and the asset method as defined in Regulations section 1.884-1(d)(3)(ii). If the partnership doesn't report an amount on line 2a because there aren't any U.S. assets, then the partnership doesn't need to report an amount on line 2b.

Line 3a. U.S.-booked liabilities of the partnership. Enter the partnership's average U.S.-booked liabilities as defined in Regulations section 1.882-5(d)(2) using the average defined in Regulations section 1.882-5(d)(3).

Line 3b. Directly allocated partnership indebtedness. Enter the portion of the principal amount of the partnership's indebtedness outstanding at year end that meets the requirements of Temporary Regulations section 1.861-10T(b) or (c), as limited by Temporary Regulations section 1.861-10T(d)(1), as described in Regulations section 1.882-5(a)(1)(ii)(B). See Temporary Regulations section 1.861-10T(d)(2).

Line 4a. Personnel of U.S. trade or business. Enter on line 4a the number of personnel who worked in the partnership's U.S. trade or business during the tax year. The partnership may use any reasonable method to determine the number of personnel, including data that is already prepared and used by the partnership for a non-tax business purpose. For example, if the partnership maintains headcount data (such as weighted average headcount data) in its personnel records or for other purposes such as budgeting, planning, and control, such numbers may be used in the numerator.

Line 5. Gross receipts from sales or services by SIC code. A partnership isn't required to complete this line 5 unless either (a) the partnership incurs R&E expenses; or (b) the partner is expected to license, sell, or transfer its intangible property to the partnership (as provided in Regulations section 1.861-17(f)(3)). For purposes of determining ECI, R&E expenses are definitely related to gross intangible income reasonably connected with relevant broad product categories of the taxpayer and are allocable to gross intangible income as a class related to such product categories. The product categories are determined by reference to the three-digit classification of the SIC code. In general, the R&E expenses are apportioned based on gross receipts. See Regulations section 1.861-17. Because R&E expenses are allocated and apportioned by the partner, the partnership reports to its partners the gross receipts generating ECI by SIC code.

For each SIC code, in line 5, column (ii), enter the gross receipts that resulted in ECI, and in line 5, column (iii), enter the worldwide gross receipts. Such gross receipts include both the partnership's gross receipts and certain other controlled or uncontrolled parties' gross receipts. See Regulations sections 1.861-17(d)(3) and (d)(4).

If there are more than two SIC codes, attach a statement to Schedules K-2 and K-3 to expand the schedule to include information on line 5 for the additional SIC codes.

Lines 7 and 8. Other allocation and apportionment key. Report other apportionment keys than those identified on lines 1 through 5, as applicable. See Regulations sections 1.861-8 through -20 and Temporary Regulations sections 1.861-8T and -9T for more detailed information.

For example, a partnership might enter ECI COGS on line a, column (i), and total COGS on line b, column (i). If ECI COGS is $100, the partnership would enter $100 in line a, column (ii), and if COGS is $200, the partnership would enter $200 in line b, column (ii). As another example, a partnership might enter average ECI assets in line a, column (i), and the average total assets in line b, column (i). The average ECI assets are the partnership's basis in its assets that generate ECI for purposes of Temporary Regulations section 1.861-9T(e)(7) using the average tax book value as defined in Regulations section 1.861-9(g). The average total assets are the partnership's basis in all of its assets for purposes of Temporary Regulations section 1.861-9T(e) using the average tax book value as defined in Regulations section 1.861-9(g). If the partnership doesn't have assets that generate ECI, then a partnership doesn't need to report an amount on line 7b, unless the partner has requested this amount. If there are more than two other types of apportionment keys, attach a statement to Schedules K-2 and K-3 to expand the schedules to include all of the information for those apportionment keys.

Section 4—Reserved for Future Use

Schedule K-2, Part XI (Section 871(m) Covered Partnerships); and Schedule K-3, Part XI (Section 871(m) Covered Partnerships)

Note. Certain partners that enter into section 871(m) transactions referencing units in the partnership will use the information in this part to determine their U.S. withholding tax and reporting obligations for those transactions under section 871(m) and related rules.

Schedules K-2 and K-3, Part XI, must be completed if you're a PTP that (a) is a covered partnership as defined in Regulations section 1.871-15(m)(1); or (b) directly or indirectly holds an interest in a lower-tier partnership that is a covered partnership, in each case regardless of whether your partners are domestic or foreign.

Line 1. If the partnership is a PTP and (a) a covered partnership, or (b) directly or indirectly holds an interest in a lower-tier partnership that is a covered partnership, check the box on Part XI, line 1, of both Schedules K-2 and K-3. A covered partnership is a partnership that carries on a trade or business of dealing or trading in securities or holds significant investments in securities. A partnership holds a significant investment in securities for this purpose if either (a) 25% or more of the value of the partnership's assets consist of underlying securities or potential section 871(m) transactions, or (b) the value of the underlying securities or potential section 871(m) transactions equals or exceeds $25 million.

Generally, an underlying security is any interest in an entity that could give rise to a U.S. source dividend (such as shares of

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stock of a domestic corporation), and a potential section 871(m) transaction is a securities lending or sale-repurchase transaction, a notional principal contract, or any other financial transaction that references one or more underlying securities. See Regulations section 1.871-15 for additional information, including the definitions of underlying securities and potential section 871(m) transactions.

Line 2. On Schedule K-2, specify the total number of units the partnership has issued and outstanding. On Schedule K-3, specify the number of units of the partnership held by the partner.

Line 3. On both Schedules K-2 and K-3, for each allocation period, specify when the allocation period begins and ends, as well as the dividends, the dividend equivalents, and the total of the dividends and dividend equivalents for the applicable period. On Schedule K-2, the information is for all the issued and outstanding units of the partnership. On Schedule K-3, the information is for the units of the partner to which the Schedule K-3 relates.

The allocation period should be determined in accordance with section 706 and the regulations thereunder. The value of a partnership's assets is equal to their FMV, except that the value of any notional principal contract, futures contract, forward contract, option, and any similar financial instrument held by the partnership is deemed to be the value of the notional securities referenced by the transaction. See Regulations section 1.871-15 for additional information regarding dividend equivalents. You can add additional lines if needed. The amounts for the dividends, dividend equivalents, and total in columns (c), (d), and (e) should be reported to the fourth decimal point, rounding up for any excess amount. For example, if the amount of a dividend was 0.12344, the reported amount should be 0.1235.

Schedule K-2, Part XII (Section 871(m) Tax Liability of a Qualified Derivatives Dealer (QDD)); and Schedule K-3, Part XII (Section 871(m) Tax Liability of a Qualified Derivatives Dealer (QDD))

Note. Certain partners in QDD partnerships will use the information in this part to determine their U.S. tax and/or withholding tax and reporting obligations for the QDD's activities.

Schedules K-2 and K-3, Part XII, must be completed if you're a QDD partnership during the tax year. The partnership must complete Schedules K-2 and K-3, Part XII, even if the partners have zero tax liability. A separate schedule must be completed for each QDD, and if the partnership has a fiscal year instead of a calendar year, the partnership must provide a separate schedule for each QDD for each portion of the calendar year that falls within the fiscal year.

Example. A QDD partnership with a fiscal year beginning September 1 and ending August 31 and only one QDD would complete two schedules (one for the period of September 1, 2024, through December 31, 2024, and one for the period of January 1, 2025, through August 31, 2025).

Name of QDD. The name of the QDD should follow the naming protocol used for applying to be a QDD.

Number of schedules filed. A QDD partnership may be required to file multiple schedules under Part XII, for example, if it has multiple branches that are QDDs or if it's a fiscal year taxpayer (as explained above). For each Schedule K-2 or K-3, indicate the number of each Part XII filed, as well as the total number of Parts XII being filed by the partnership for that schedule in the entry spaces provided.

Column (b). Withholding tax rate. Complete this column for Schedule K-2 reflecting the weighted average applicable withholding tax rate of the partners. Complete this column for Schedule K-3 reflecting the applicable withholding tax rate of the partner, and if the partner isn't an individual or corporation, use the weighted average applicable withholding tax rate of that partner. The weighted average applicable withholding tax rate of the partners is determined by adding the product of each partner's percentage of the allocations of the applicable item by that partner's applicable withholding tax rate. The withholding tax rate of a U.S. partner is zero, unless it is a partnership with direct or indirect foreign partners.

Column (c). Amount of tax liability. Complete this column for Schedule K-2 reflecting the total tax liability of the partners. Complete this column for the Schedule K-3 reflecting the tax liability of the applicable partner. Except as provided in the *Note* immediately below, the amount in column (c) is determined by multiplying column (a) by column (b). This column isn't reduced by any withholding that has occurred.

Note. For calendar year 2024, certain information isn't required, as indicated in the line instructions below. However, if the taxpayer has a fiscal year that begins in 2024 and ends in 2025, information is required for any amounts paid or accrued on or after January 1, 2025.

Line 1. Total section 871(m) amount. For Schedule K-2, enter the gross amount in column (a) figured as the sum of each section 871(m) amount for the QDD for the relevant period. For Schedule K-3, enter the gross amount in column (a) figured as the sum of each section 871(m) amount of the QDD for the relevant period that is allocated to the applicable partner. See section 2.73 of the QIA.

Note. For calendar year 2024, this information isn't required.

Line 2. Total dividends received in equity derivatives dealer capacity. For calendar year 2024, only the gross amount (column (a)) and tax rate (column (b)) are required.

Line 3. Total QDD tax liability pursuant to section 3.09(A) of the Qualified Intermediary Agreement (QIA). Column (c) is the sum of each section 3.09(A) amount for the QDD for the relevant period.

Note. For calendar year 2024, this information isn't required.

Line 4. Total QDD tax liability pursuant to section 3.09(B) of the QIA. Enter the information requested in columns (a), (b), and (c).

Line 5. Total QDD tax liability pursuant to section 3.09(C) of the QIA. In addition to specifying the type of income (for example, dividends or interest), enter the information requested in columns (a), (b), and (c) separately for each income type. For dividends, include all dividends, including dividends separately stated on line 2.

Note. For calendar year 2024, don't include dividends included on line 2.

Schedule K-3, Part XIII (Foreign Partner's Distributive Share of Deemed Sale Items on Transfer of Partnership Interest)

Note. Schedule K-2 doesn't have a corresponding Part XIII. This part provides the information for a foreign partner to use to determine the gain or loss it reports on its return from the transfer of an interest in the partnership.

Partners will use this information as follows. A partner that:

- Is a nonresident alien individual, foreign trust, or foreign estate completes Schedule P (Form 1040-NR);

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- Is a foreign corporation completes Schedule P (Form 1120-F), Parts IV and V; or
- Had an installment sale, see Form 6252.

This part generally applies to a partnership that is directly or indirectly engaged in the conduct of a trade or business in the United States (U.S. trade or business) and had a foreign partner if either of the following has occurred.

- The foreign partner transferred an interest in the partnership (including a distribution that results in the recognition of gain or loss to a partner (see Regulations section 1.731-1(a)).
- The partnership directly or indirectly transferred an interest in a partnership that engaged in a U.S. trade or business.

The partnership must complete lines 1 through 3 of this part if it is notified or otherwise knows that a transfer subject to section 864(c)(8) has occurred. A partnership that makes a distribution is treated as having actual knowledge of the transfer. See Regulations section 1.864(c)(8)-2(a)(1) and Pub. 541 for the rules regarding foreign transferor notifications.

If the transfer was a section 751(a) exchange, the partnership must also file a Form 8308, Report of a Sale or Exchange of Certain Partnership Interests. See Regulations section 1.6050K-1.

Tiered partnerships. If a foreign transferor transferred an interest in an upper-tier partnership that holds, directly or indirectly through one or more partnerships, an interest in a lower-tier partnership engaged in a U.S. trade or business, then the upper-tier partnership must include in the foreign transferor's aggregate deemed sale ECI items the items derived from the lower-tier partnership; see Regulations section 1.864(c)(8)-2(b)(2)(i). Therefore, to complete this part, the upper-tier partnership will need to obtain the amount of the upper-tier partnership's distributive share of deemed sale effectively connected gain or loss from the lower-tier partnership. Under these circumstances, the lower-tier partnership may provide that information to the upper-tier partnership using Part XIII even though the upper-tier partnership didn't actually transfer its interest in the lower-tier partnership. A lower-tier partnership that uses Part XIII should complete it as though the upper-tier partnership transferred its entire interest in the lower-tier partnership. Part XIII may be used by each tier of partnerships until it reaches the uppermost tier whose interest was transferred. To indicate that there was no actual transfer by an upper-tier partnership of its interest in a lower-tier partnership, the lower-tier partnership should leave item A blank. When the upper-tier partnership receives the information from the lower-tier partnership, whether reported on Part XIII or in some other manner, it should use this information to complete the Part XIII it issues to its foreign transferor.

Item A. Date of transfer of the partnership interest. Enter the date that the foreign partner transferred an interest in the partnership or the date that the partnership transferred an interest in a partnership that engaged in a U.S. trade or business. The partner's notification should provide this date to you. If there are multiple transfers during the tax year for a foreign partner, complete a separate schedule for each transfer.

Item B. Identify the number of units or the percentage interest in the partnership transferred. Enter either the percentage interest in the partnership or the number of units in the partnership that the partner transferred in item B1 or B2, respectively.

Enter zero for item B if a partnership is completing this part for a partner that is treated as transferring an interest in the partnership because it received a distribution but whose ownership interest in the partnership remains unchanged.

Item C. Check the box in item C that identifies the type of interest the partner transferred in the partnership. Complete a separate schedule for each type of partnership interest (such as capital or preferred) transferred, and complete each schedule based on the portion of the type of interest transferred. If there are multiple classes of the same type of partnership interest, complete a separate schedule for each class of interest transferred. If the categories in item C aren't narrow enough to distinguish between different classes, then check "Other" and explain.

Line 1. Total ordinary gain or (loss) that would be recognized on the deemed sale of section 751 property. Enter the amount of income or loss from section 751(a) property that would have been allocated to the foreign partner with respect to the interest transferred if the partnership had sold all of its property in a fully taxable transaction for cash in an amount equal to the FMV of the property immediately before the partner's transfer of the interest in the partnership. See Regulations section 1.751-1(a).

Lines 2 and 3. Aggregate effectively connected ordinary gain or (loss) that would be recognized on the deemed sale of section 751 property, and Aggregate effectively connected capital gain or (loss) that would be recognized on the deemed sale of non-section 751 property. Determining the amount to report on line 2 and line 3 requires a three-step process. These instructions provide an overview of that process outlined below. For more information, see Regulations section 1.864(c)(8)-1.

Step 1. For each asset the partnership holds, determine the amount of gain or loss that the partnership would recognize in connection with a deemed sale to an unrelated party in a fully taxable transaction for cash equal to the asset's FMV immediately before the partner's transfer of its partnership interest.

Step 2. Determine the amount of that gain or loss that would be treated as effectively connected gain or loss (deemed sale effectively connected gain and deemed sale effectively connected loss).

Step 3. Determine the partner's distributive share of these deemed sale gain or loss amounts.

Enter on line 2 the foreign transferor's distributive share of deemed sale effectively connected ordinary gain or loss recognized on the transfer of section 751(a) property.

Enter on line 3 the foreign transferor's distributive share of deemed sale effectively connected capital gain or loss recognized on the transfer of non-section 751(a) property.

Lines 4 and 5. Aggregate effectively connected gain that would be recognized on the deemed sale of section 1(h)(5) collectible assets, and Aggregate effectively connected gain that would be recognized on the deemed sale of section 1(h)(6) unrecaptured section 1250 gain assets. Lines 4 and 5 don't apply to a foreign transferor that is a corporation. These amounts are subsets of the amount of the aggregate effectively connected capital gain (loss) that would be recognized on the deemed sale of non-section 751 property reported on line 3.

Enter on line 4 the foreign transferor's distributive share of deemed sale effectively connected gain recognized on the transfer of section 1(h)(5) collectible assets.

Enter on line 5 the foreign transferor's distributive share of deemed sale effectively connected gain recognized on the transfer of section 1(h)(6) unrecaptured section 1250 gain assets.

Line 6. Check this box if any amount on lines 2 through 5 is determined (in whole or in part) under Regulations section 1.864(c)(8)-1(c)(2)(ii)(E) (material change in circumstances rule for a deemed sale of the partnership's inventory property or intangibles). As part of the three-step process for determining the amount to report on lines 2 and 3, Regulations section 1.864(c)(8)-1 provides certain look-back rules that apply

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for purposes of sourcing the deemed sale gain or loss with respect to inventory property and intangibles held by a partnership. However, if a material change in circumstances during the look-back period causes these rules to reach an inappropriate sourcing result, Regulations section 1.864(c)(8)-1(c)(2)(ii)(E) allows, in certain cases, the relevant look-back rule for inventory property or intangibles to be applied by reference to the date on which the material change in circumstances occurs. The partnership must check the box provided on line 6 if the material change in circumstances rule is used to determine the amount provided on line 2 or 3.

Line 7. Capital gain or (loss) that would be recognized under section 897(g) on the deemed sale of U.S. real property interests. Section 897(a) treats gain or loss from the disposition of a U.S. real property interest (as defined in section 897(c)) by a nonresident alien or foreign corporation as gain or loss that is effectively connected to a trade or business within the United States. Section 897(g) generally provides that, under regulations prescribed by the Secretary, the amount of any money, and the FMV of any property, received by a nonresident alien individual or foreign corporation in exchange for all or part of its interest in a partnership, trust, or estate shall, to the extent attributable to U.S. real property interests, be considered as an amount received from the sale or exchange in the United States of such property. A partnership must complete line 7 if it holds U.S. real property interests and the transfer of an interest in the partnership isn't subject to section 864(c)(8). Under these circumstances, the partnership must enter on line 7 for purposes of section 897(g) the foreign transferor's distributive share of the partnership's gain or loss on the deemed sale of the U.S. real property interests and should not complete lines 1 through 6. A partnership that has this type of income and is also engaged in a U.S. trade or business should instead include this income on line 3 and should not complete line 7.

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