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# Partner's Instructions for Schedule K-3 (Form 1065)

## Partner's Share of Income, Deductions, Credits, etc.—International (For Partner's Use Only)

Contents	Page	tax years of the foreign corporation that begin on or after January 25, 2022.
General Instructions	<a href="#">1</a>	
Purpose of Schedule K-3	<a href="#">1</a>	<b>Schedule K-3, Part IX, Section 2, line 7.</b> Cost sharing transaction payments as defined in Regulations section 1.482-7(b)(1)(i) are now separately reported on line 7, and not in amounts reported on line 16.
How To Use Schedule K-3	<a href="#">2</a>	
Specific Instructions	<a href="#">3</a>	
Part I. Partner's Share of Partnership's Other Current Year International Information	<a href="#">3</a>	<b>Schedule K-3, Part IX, Section 2, lines 17 and 18.</b> 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.
Part II. Foreign Tax Credit Limitation	<a href="#">6</a>	
Part III. Other Information for Preparation of Form 1116 or 1118	<a href="#">9</a>	
Part IV. Information on Partner's Section 250 Deduction With Respect to Foreign-Derived Intangible Income (FDII)	<a href="#">11</a>	<b>Schedule K-3, Part XII.</b> Part XII has been added to provide information to a partner regarding a partnership that is, or has one or more branches that are, a qualified derivatives dealer (QDD).
Part V. Distributions From Foreign Corporations to Partnership	<a href="#">12</a>	
Part VI. Information on Partner's Section 951(a)(1) and Section 951A Inclusions	<a href="#">13</a>	<b>Schedule K-3, Part XIII, line 8.</b> 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.
Part VII. Information Regarding Passive Foreign Investment Companies (PFICs)	<a href="#">13</a>	
Part VIII. Partner's Interest in Foreign Corporation Income (Section 960)	<a href="#">16</a>	
Part IX. Partner's Information for Base Erosion and Anti-Abuse Tax (Section 59A)	<a href="#">17</a>	
Part X. Foreign Partner's Character and Source of Income and Deductions	<a href="#">19</a>	
Part XI. Section 871(m) Covered Partnerships	<a href="#">20</a>	
Part XII. Section 871(m) Tax Liability of a Qualified Derivatives Dealer (QDD)	<a href="#">21</a>	
Part XIII. Foreign Partner's Distributive Share of Deemed Sale Items on Transfer of Partnership Interest	<a href="#">21</a>	

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

## Future Developments

For the latest information about developments related to Form 1065 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1065](https://www.irs.gov/Form1065).

## What's New

**Schedule 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.

**Schedule 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

## General Instructions

The Partner's Instructions for Schedule K-1 (Form 1065) generally apply to Schedule K-3, including *Inconsistent Treatment of Items and Errors*. These instructions provide additional information specific to Schedule K-3 for tax years beginning in 2024.

## Purpose of Schedule K-3

Schedule K-3 (Form 1065) reports items of international tax relevance from the operation of a partnership. You must include this information on your tax or information returns, if applicable. See separate parts for specific instructions. You only need to use the schedules that are applicable to you. For example, in general, if the partner receiving Schedule K-3 is a domestic corporation, the partnership wouldn't have completed and filed Part X, Foreign Partner's Character and Source of Income and Deductions, because that part is inapplicable to domestic corporation partners. If the partner receiving Schedule K-3 is itself a partnership, it'll use information from Schedule K-3 to complete Schedules K-3 to report to its partners.

The proper treatment of certain items by the partner is dependent on information that the partnership may not have; thus, the partnership may have reported certain information on Schedule K-3 based on assumptions that are incorrect. In such cases, the partner must treat the items according to the partner's actual facts, and if appropriate file a Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), to identify and explain the inconsistency.

**Domestic partnerships with no or limited foreign activity.** A partnership with no foreign source income, no assets generating foreign source income, and no foreign taxes paid or accrued may be reporting information to partners on Schedules K-3. For example, if you claim a credit for foreign taxes paid and/or accrued separately from your partnership interest, you may need certain information from the partnership to complete Form 1116 or 1118. Also, if you're a domestic corporation, a domestic partnership may be required to complete Part IX when the partnership makes certain deductible payments to foreign parties related to you. The information reported in Part IX will assist you as a domestic corporation in determining the amount of base erosion payments made through the partnership, and in determining if you're subject to the base erosion and anti-abuse tax (BEAT). See also Part IV concerning foreign-derived intangible income (FDII) for when a domestic partnership with solely domestic activity may be reporting information to you, Part XI for when a domestic or foreign publicly traded partnership (PTP) as defined in section 7704(b) with no foreign activity may be reporting information to you, and Part XII if you're a partner in a QDD partnership (as defined in the Part XII instructions).

**Example 1—Part IX required to determine base erosion payments.** Foreign corporation wholly owns DC, a domestic corporation, and FC, a foreign corporation. DC satisfies the gross receipts test; see Regulations section 1.59A-2(d). In Year 1, DC owns a 50% interest in 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 FC \$100 for services. The services aren't eligible for the services cost method exception; see Regulations section 1.59A-3(b)(3)(i). DC's distributive share of the \$100 payment to FC 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 with respect to that amount; see Regulations section 1.59A-7(d)(2). Therefore, DC is treated as having paid \$50 to FC. 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, DC receives Part IX of Schedule K-3 (Form 1065) from USP.

## How To Use Schedule K-3

**Reporting currency.** All amounts are reported in U.S. dollars except where otherwise specified.

**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 Schedule K-3, in general.** The following are brief descriptions of each part of Schedule K-3. Detailed information is provided later in the *Specific Instructions*.

**Part I.** Part I is used to determine any international tax items not reported elsewhere on Schedule K-3 (Form 1065).

**Part II.** Part II is used to determine your distributive share of partnership income and loss by source and separate category of income for purposes of the foreign tax credit limitation. Partners will use the information to claim and figure a foreign tax credit on Form 1116 or 1118.

**Part III.** Part III is used 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. Also use this part to determine your distributive share of the partnership's creditable foreign taxes paid or accrued, and to determine income adjustments under section 743(b) by source and separate category. Partners use the information to figure and claim a foreign tax credit on Form 1116 or 1118.

**Part IV.** Part IV is used to determine your deduction with respect to FDII. Partners 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.** Part V is used, along with other information known to you, such as from Schedule P (Form 5471), Previously Taxed Earnings and Profits of U.S. Shareholders of Certain Foreign Corporations, to determine your share of distributions by foreign corporations to the partnership that are attributable to previously taxed earnings and profits (PTEP) in your annual PTEP accounts with respect to the foreign corporations (which are excludable from your gross income) or non-previously taxed earnings and profits (E&P), and the amount of foreign currency gain or loss on the PTEP that you're required to recognize under section 986(c). Use the information to figure and report the dividends and foreign currency gain or loss on Forms 1040 and 1120.

**Part VI.** Part VI is used to determine your income inclusions under sections 951(a) and 951A if you're a U.S. shareholder of any of the listed controlled foreign corporations (CFCs). Partners use the information to complete Form 8992, U.S. Shareholder Calculation of Global Intangible Low-Taxed Income, and Forms 1040 and 1120 with respect to subpart F income inclusions, section 951(a)(1)(B) inclusions, and section 951A inclusions.

**Part VII.** Part VII is used to complete Form 8621, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, and to provide information required to determine your inclusion with respect to the passive foreign investment company (PFIC).

**Part VIII.** Part VIII is used to determine your deemed paid taxes on inclusions under section 951A, 951(a)(1), or 1293(f). Domestic corporate partners and partners making a section 962 election use the information to figure a deemed paid foreign tax credit on Form 1118.

**Part IX.** Part IX is used to figure the BEAT. Corporate partners use the information to complete Form 8991.

**Part X.** Part X is used to provide information to a foreign partner (or a pass-through entity partner with a foreign owner) to determine its tax liability or reporting requirements with respect to income effectively connected with a U.S. trade or business (ECI) or with respect to fixed, determinable, annual, or periodical (FDAP) income. Partners use the information to figure and report any U.S. tax liability on Form 1040-NR, U.S. Nonresident Alien Income Tax Return; Form 1120-F, U.S. Income Tax Return of a Foreign Corporation; or other applicable forms.

**Part XI.** Certain partners that have entered into section 871(m) transactions referencing units in the partnership will use any information reported in this part to determine their U.S. withholding tax and reporting obligations with respect to those transactions under section 871(m) and related rules, including for purposes of determining the amounts to report on Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons; and Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding.

**Part XII.** Partners of QDD partnerships 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.** Use this information as follows.

- If you're a nonresident alien individual, foreign trust, or foreign estate, complete Schedule P (Form 1040-NR), Foreign Partner's Interests in Certain Partnerships Transferred During Tax Year.
- If you're a foreign corporation, complete Schedule P (Form 1120-F), List of Foreign Partner's Interests in Partnerships, Parts IV and V.
- If this is an installment sale, see Form 6252, Installment Sale Income.

## Specific Instructions

### Schedule K-3 Identifying Information

**Item E—Part applicability.** The partnership checked the “Yes” box to indicate the applicable parts of Schedule K-3. The partnership checked the “No” box to indicate the inapplicable parts of Schedule K-3.

### Part I. Partner's Share of Partnership's Other Current Year International Information

This part reports your information for international tax items not reported elsewhere on Schedule K-3.

**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). If the partnership sells nondepreciable personal property (other than inventory and certain intangible property), you, the partner, are treated as the seller. Therefore, you'll need to determine the source of the gain reported in Part II, line 1, column (f). In general, if you're a U.S. citizen or resident alien individual, the gain is U.S. source. However, as outlined in section 865(g), 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 if an income tax of at least 10% is imposed by and paid to a foreign country regarding such sale; see section 865(g)(2). See also sections 865(e)(1) and 865(h) for other sourcing provisions for which the information provided in box 1 may be helpful. See section 865 for exceptions to the general sourcing rule.

If the partnership checked box 1 in Part I, use the information attached to Schedule K-3 to determine if a foreign country imposed a tax of at least 10% or more on the gain from each sale. If so, and you have a tax home in a foreign country, such gain is foreign source income and reported on Form 1116. For more information, see the instructions for Part II, column (f), later.

**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 had such taxes, it checked box 2 and attached a partially completed Schedule I (Form 1118), Reduction of Foreign Oil and Gas Taxes, to Schedule K-3. If you're a corporation, use the partially completed Schedule I to complete your Schedule I (Form 1118). If you're an individual, estate, or trust, see Form 1116, Part III, line 12, and the associated instructions for the applicable reduction for individuals.

**Box 3. Splitter arrangements.** Foreign income taxes with respect to 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 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).

If the partnership checked box 3 in Part I, it attached a statement that separately identifies any arrangement, along with your share of the taxes paid or accrued in connection with the arrangement in which the partnership participates that would qualify as a splitter arrangement under section 909. The box should be checked only if the partnership knows or has reason to know an entity that took into account related income from the arrangement is a covered person with respect to one or more partners. For example, you're a payor of a foreign income tax if you take into account the foreign income taxes paid or accrued by the partnership under section 702(a)(6). If the partnership wholly owns a reverse hybrid (as defined in Regulations section 1.909-2(b)(1)(iv)) and you own 10% or more (determined by vote or value) of the interest in the partnership, the reverse hybrid is a covered person with respect to you. You can't credit the foreign income taxes paid or accrued by the partnership with respect to the reverse hybrid until you or the partnership takes into account the related income of the reverse hybrid. Until then, the taxes are suspended. The partnership reported your share of the potentially suspended taxes as a result of the application of section 909 on Part III, Section 4, line 2E. If you're a corporation, complete Form 1118, Schedule G, line E, for taxes suspended under section 909. If you're an individual, estate, or trust, include on Form 1116, Part III, line 12, taxes suspended under section 909. If you're required to complete Form 5471 for a CFC, include in Schedule E (Form 5471), Schedule E-1, line 3b, column (d), taxes suspended under section 909.

If the partnership checked box 3, and the statement indicates that the partnership took into account the related income from the splitter arrangement, the taxes are partially or fully unsuspended depending on the amount of related income taken into account. Even though the taxes are unsuspended, in certain cases you might not be eligible to claim a credit for those taxes, for example, when the related income is taken into account as part of a dividend for which you're eligible for a section 245A deduction. To the extent you're eligible to claim a credit for unsuspended taxes, these amounts may be claimed on Form 1118 or 1116, as applicable. If you're required to complete Form 5471, for a CFC, report the unsuspended taxes in Schedule E (Form 5471), Schedule E-1, line 3a, column (d).

In some cases, you may take into account related income directly that allows you to partially or fully unsuspend taxes, for example, by way of a subpart F or GILTI inclusion with respect to related income.



*There might be a splitter arrangement with respect to the partner even if the partnership didn't identify one, given that the partnership didn't have the information available to the partner. Therefore, you must identify such arrangement even if box 3 isn't checked.*

**Box 4. Foreign tax translation.** If the partnership checked box 4, it'll attach a statement described in the instructions for Part III, Section 4.

**Box 5. High-taxed income.** If the partnership checked box 5, you must determine if the passive income reported to you by the partnership is treated as income in another separate category. The partnership should have attached Worksheets 1 and/or 2, from the Partnership Instructions for Schedules K-2 and K-3 (Form 1065). Under section 904(d)(2)(B)(iii), 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. You must group your distributive shares of passive income from a partnership according to the rules in Regulations section 1.904-4(c)(3).

However, under Regulations 1.904-4(c)(5)(ii), the portion, if any, of the distributive 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).

Use Schedule K-3 and your taxes on your other passive income (that is, passive income that isn't attributable to your distributive share of the partnership's income as reported on Schedule K-3) to determine if you need to assign passive income and the associated taxes to another separate category of income. You must allocate and apportion your expenses to this passive income to determine if the income is treated as income in another separate category. This includes both your distributive share of partnership expenses and expense incurred by you directly. If you're a corporation, see the Instructions for Form 1118 for how to report your income and taxes reclassified under the high-taxed income rule. If you're an individual, estate, or trust, see the Instructions for Form 1116 for how to report your income and taxes reclassified under the high-taxed income rule.

**Box 6. Section 267A disallowed deductions.** If the partnership checked box 6 on Part I and attached a statement titled "Section 267A Disallowed Deduction," prepare your tax return by taking into account that you aren't allowed a deduction for any of the amounts listed in the statement. Thus, for example, don't claim as a deduction any amount reported on Schedule K-3, Part II, Section 2, lines 41 through 43, or Part X, Section 2, line 9, to the extent listed in the statement as an amount for which a deduction is disallowed under section 267A. In addition, you may be required to report the amount of your disallowed deductions under section 267A. See, for example, Form 1120, Schedule K, question 21; and Form 1120-F, U.S. Income Tax Return of a Foreign Corporation, Additional Information, item EE.



*Box 6 and the accompanying statement describe only interest or royalty paid or accrued by the partnership for which the partnership knows, or has reason to know, that you're disallowed a deduction under section 267A. In certain cases, the partnership may not know, or have reason to know, that you're disallowed a deduction for interest or royalty paid or accrued by the partnership. See the instructions for Form 1065, Schedule B, question 22, for additional information.*

*For your share of any interest or royalty paid or accrued by the partnership, you must apply section 267A and determine whether a deduction is disallowed, regardless of whether box 6 is checked or whether the amount is listed on the accompanying statement.*

**Boxes 8 and 9. Form 5471 and other forms.** If applicable, the partnership will attach the relevant portions of Form 5471; Form 5713, International Boycott Report; and other relevant international tax forms. If the partnership has filed Form 8990, Limitation on Business Interest Expense Under Section 163(j), the partnership will also 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 are attributable to ECI.

Box 9 will be checked if the partnership attached Form 8858, Form 8621, or both to its Form 1065. If you need information from these forms, request it from the partnership.

**Box 10. Partner loan transactions.** If this box is checked, the partnership identified upstream or downstream partnership loan transactions. See Regulations sections 1.861-9(e)(8) and (9) for purposes of determining special rules regarding interest expense allocation and apportionment if you have such loan transactions with the partnership.



*There might be a partner loan transaction even if the partnership didn't identify one, given that the partnership didn't have the information available to the partner.*

**Box 11. Dual consolidated loss.** If the partnership checked box 11 and you're a domestic corporation (other than a regulated investment company (RIC), a real estate investment trust (REIT), or an S corporation), the dual consolidated loss (DCL) rules pursuant to Regulations sections 1.1503(d)-1 through -8 may apply to your share of certain partnership items. In order to comply with the DCL rules, take into account the information provided in the attachment to this schedule (for example, your share of the income or DCL attributable to the partnership's foreign branch or interest in a hybrid entity).

**Box 12. 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), containing all the information required under Regulations section 1.6038B-2, with respect to the transfer, the partnership must provide the necessary information for each partner to fulfill its reporting requirements under Regulations section 1.6038B-2. The partnership should have attached the relevant information to Schedule K-3, as applicable to the partner.

**Box 13. Other international items.** If the partnership has transactions, income, deductions, payments, or anything else that implicates the international tax provisions of the Code and such items aren't otherwise reported on this part or other parts of Schedule K-3, the partnership reported that information on a statement and checked box 13.

If you're a CFC partner (or in the case of a pass-through entity partner, your partner is a CFC), the partnership attached information to Schedule K-3 so that the U.S. shareholder may complete Form 5471. For example, if you're a CFC partner in the partnership, the U.S. shareholder of the CFC will need to report the information reported on your Schedule K-3, Parts II and III, on Form 5471, in particular, Schedule E (Form 5471). If you're a controlled foreign partnership (CFP) partner (or in the case of a pass-through entity partner, your partner is a CFP), the partnership attached information to Schedule K-3 so that the U.S. partner in the CFP may complete Form 8865.

## Parts II and III

Schedule K-3, Parts II and III, report information you use to figure the foreign tax credit. In general, a U.S. individual, U.S. citizen or U.S. resident individual beneficiary of certain domestic estates and trusts, or domestic corporation may claim a credit for taxes paid or accrued, and in some cases deemed paid, to foreign countries or U.S. territories. In general, foreign corporations and nonresident alien individuals may claim a credit for taxes paid or accrued to foreign countries or U.S. territories with respect to ECI. The amount of foreign tax credit in a tax year is generally limited to the lesser of the foreign income taxes paid or accrued or the U.S. tax on foreign source income. The limitation is figured by separate categories of foreign source income, including foreign branch category, passive category, and general category. See the instructions for Forms 1116 and 1118, as well as Pub. 514, Foreign Tax Credit for Individuals, for a summary of the rules for determining the sources and separate categories of income.

**Note.** If you're a partnership that is a partner in a partnership, the information that you receive on your Schedule K-3, Parts II and III, will need to be included on the Schedules K-3, Parts II and III, that you provide to your partners.

**Partnership with U.S. 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 income taxes paid or accrued may have reported information on Schedule K-3. For example, if you claim the foreign tax credit, you generally need certain information from the partnership in 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 the Schedules K and K-1, and is information you need to compute the foreign tax credit limitation, which determines the amount of foreign tax credit available to you.

**Exceptions.** You may not have received Schedule K-3 if the partnership was eligible for an exception. See *Domestic Filing Exception* in the Partnership Instructions for Schedules K-2 and K-3 (Form 1065). Also, if you (or, if you're a pass-through entity, your direct or indirect partner) are eligible to claim a foreign tax credit, you aren't required to receive Schedule K-3, Parts II and III, if you or your partners aren't required to complete Form 1116. This could be the case, for example, because you (or, if you're a pass-through entity, your direct or indirect partners) qualify for an exception to filing Form 1116. See section 904(j) and *Form 1116 exemption exception* in the Partnership Instructions for Schedules K-2 and K-3 (Form 1065). However, see reasons below for requesting the Schedule K-3 when you're required to file Form 1116.

**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 invests in a RIC. USP receives a 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 aside from that of the RIC. USP notifies the couple on an attachment to the 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. Because USP qualified for the domestic filing exception, USP didn't complete Schedule K-3 for the couple.

**Reasons to request Schedule K-3 from domestic partnerships with limited or no foreign activity.** Section 904 generally limits the foreign tax credit to the lesser of the 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 completed Schedule K-3, Parts II and III, because the partnership's gross income, gross receipts, expenses, assets, and foreign income taxes paid or accrued may affect the foreign tax credit available to the partner. The source of certain gross income is determined by the partner. In addition, some expenses of the partnership are allocated and apportioned by the partner. Because the income source and expense allocation are determined by the partner in certain cases, it's not 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 allocation and apportionment of certain partner expenses take into account distributive shares of assets and income of the partnership that aren't otherwise reported on Schedule K-1. For example, under section 865(i)(5), for sourcing purposes, personal property sold by the partnership is treated as sold by the partners. Generally, income from the sale of certain nondepreciable personal property (excluding inventory and certain other property) 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 distributive share of the partnership's gain on the sale of personal property isn't separately stated on Schedule K-1, but is reported in Schedule K-3, Part II.

As another example, 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; see Regulations section 1.861-17(f). R&E expenses are allocated and apportioned based on the gross receipts by Standard Industrial Classification (SIC) code. The distributive share of the R&E expenses by SIC code isn't separately stated on Schedule K-1, but is reported in Schedule 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, Schedule K-3, 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 gross income or foreign source gross 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 U.S. source gross income and less expense allocated to reduce foreign source gross 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 the instructions take this into account such that the partnership isn't required to provide these partners with certain portions of Schedule K-3. Schedule K-1 doesn't separately state the distributive share of the partnership's total interest expense, or the tax book value of the assets, whereas the Schedule K-3 contains this information. See Regulations section 1.861-9(e). See [Lines 39 and 40](#) and [Lines 41 through 43](#) under *Part II*; and [Section 2](#) under *Part III*, later, for further guidance.

**Example 3—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. Such taxes are 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 to Kirby's gross income. 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 provides Parts II and III of Schedule K-3 to Kirby. Kirby's share of the tax book value of USP's assets is \$50,000, which is reported in Schedule K-3, Part III, Section 2, column (a). Not including its 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 and Kirby's U.S. tax rate is 25%. Kirby's interest expense and USP's assets are characterized in the same category under sections 163 and 469 for purposes of Temporary 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 foreign source gross income is \$1,000 ( $\$5,000 \times \$10,000/\$50,000$ ). Therefore,

Kirby's 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 income 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 gross 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 income 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 didn't complete Schedule K-3 for Darby.

**Example 4—Part II, not Part III, required for partnership with no foreign activity.** The facts are the same as in Example 3, except that Kirby has \$5,000 of expenses 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 its distributive share of the income of USP, Kirby's gross income is \$50,000. Of Kirby's gross income, \$5,000 is 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 provided Schedule K-3, Part II, to 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 gross 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 income 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 gross 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 income taxes—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 income taxes, USP didn't provide Schedule K-3, Part III, to Kirby.

**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) and should request this information from the partnership if it's needed and if it hasn't been provided.

## Part II. Foreign Tax Credit Limitation

**Column (a). U.S. source.** Don't report amounts in this column on Form 1116 or 1118 unless you elect to re-source such income under an applicable U.S. income tax treaty. See sections 904(d)(6) and 865(h). See the instructions for Forms 1116 and 1118 for income re-sourced by treaty reported as a separate category of income.

**Columns (b) through (e). Foreign source.** Add the amounts reported in these columns to your other income in these

separate categories and report the total amounts on the applicable Form 1116, Part I; or Form 1118, Schedule A.

**Exception.** If you're a limited partner, you hold less than 10% of the value of the partnership, and you didn't hold your interest in the ordinary course of the partner's active trade or business, then any amounts reported on Schedule K-3 in the following locations should generally be reported as passive category income.

- Part II, Section 1, columns (b), (d), and (e).
- Part III, Section 1, columns (b), (d), and (e).
- Part III, Section 3, columns (c) and (d).
- Part III, Section 5, columns (b), (c), (e), and (f).

Deductions reported in Part II, Section 2, columns (b), (d), and (e), should generally be reported as reducing passive category income. Similarly, any foreign income taxes paid or accrued on foreign source income in Part III, Section 4, columns (b), (c), (e), and (f), should generally be assigned to passive category income; see Regulations section 1.904-4(n)(1)(ii). If you're a limited partner that owns less than 10% of a capital and profits interest in the partnership, Part III, Section 2, wasn't completed by the partnership; see Regulations section 1.861-9(e)(4). See section 904(d)(2)(B)(iii)(II) and Regulations section 1.904-4(c) for an exception to passive category if income is subject to a high rate of foreign tax.

**Column (f). Sourced by partner.** You must determine the source and separate category of the income reported in this column. The income in this column will generally be with respect to sale of personal property other than inventory, depreciable property, and certain intangible property will generally be sourced under section 865. This column might also include foreign currency gain on a section 988 transaction. If you're a U.S. citizen or resident, sales and gains reported in this column will generally be U.S. source income and not reported on Form 1116 or 1118 unless you elect to re-source such income under an applicable income tax treaty. There are certain exceptions, for example, a U.S. citizen or resident with a tax home (as defined in section 911(d)(3)) in another country is treated as a nonresident if an income tax of at least 10% is imposed by and paid to a foreign country regarding such sale. See the instructions for box 1 of Part I, earlier. Also, the source of foreign currency gain or loss on section 988 transactions may be determined by reference to the residence of the QBU on whose books the asset, liability, or item of income or expense is properly reflected. See the Instructions for Form 1118 and Pub. 514 for additional details.

## Section 1—Gross Income (Lines 1 Through 24)

Form 1118, Schedule A, requires a corporation to separately report certain types of gross income by source and separate category. Schedule K-3, Part II, lines 1 through 23, generally follow the separately reported types of gross income on 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 would report the amount from Schedule K-3, Part II, Section 1, line 24, taking into account section 904(b)(2) and PTEP adjustments, by country on their Form 1116, Part I, line 1a. Because all gross income is reported on one line on the Form 1116, the remaining instructions generally refer only to Form 1118 reporting.

**Country code.** Lines 1 through 24 require the partnership to report for each gross income item, on a separate line (A, B, or C), the two-letter code from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes) for the foreign country or U.S. territory within which the gross income is sourced. If a type of income is sourced from more than three countries, a statement is attached to expand Schedule K-3, Part II, for that type of income to report the additional countries.

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

If applicable, the partnership entered in column (f) the foreign country to which the partnership paid tax of at least 10% of the gain. See sections 865(e) and 865(g).

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

**Note.** For Part II, column (f), if the partnership entered the code XX, it was because it couldn't determine the country or U.S. territory from which the gross income is sourced because the source is determined by your residence, or for pass-through entities, the residence of the first non-pass-through partner.

**Exceptions.** The instructions for Forms 1116 and 1118 specify exceptions from the requirement to report gross income by foreign country or U.S. territory with respect to RICs and section 863(b). See the instructions for Forms 1116 and 1118 for these exceptions that apply.

**Line 1. Sales.** If you file Form 1118, add the amount reported on this line to your other sales and report the total in Form 1118, Schedule A, column 7, by separate category. See [Column \(f\), Sourced by partner](#), earlier, for more information.

**Line 2. Gross income from performance of services.** If you file Form 1118, add the amount reported on this line to your other gross income from performance of services and report the total in Form 1118, Schedule A, column 8, by separate category.

**Lines 3, 4, and 10. Rental income, royalties, and license fees.** If you file Form 1118, add the amount reported on this line to your other rental income, royalties, and license fees and report the total in Form 1118, Schedule A, column 6, by separate category.

**Line 5. Guaranteed payments.** If you file Form 1118, add the amount reported on this line to your other guaranteed payments and report the total in Form 1118, Schedule A, column 11, by separate category.

**Line 6. Interest income.** If you file Form 1118, add the amount reported on this line to your other interest income and report the total in Form 1118, Schedule A, column 5, by separate category.

**Lines 7 and 8. Ordinary dividends and qualified dividends.** Some of the amounts reported on these lines may be attributable to PTEP in annual PTEP accounts that you have with respect to a foreign corporation and are therefore excludable from your gross income. If you file Form 1116, don't include the amount attributable to PTEP in your annual accounts on Part I, line 1a.

If you file Form 1118, add the amount reported on this line, less the amount attributable to PTEP in your annual PTEP accounts, to your other dividends and report the total in Form 1118, Schedule A, column 4, by separate category.

See the Instructions for Form 1116 for additional information on the rules regarding capital gain rate differentials (as defined in section 904(b)(3)(D)) for qualified dividends.

**Lines 11 through 15 and 27 through 30. Capital gains and losses.** 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. These rules apply to individuals and may require adjustments to the amounts

on lines 11 through 15, which in turn affect the total amount on line 24. See the Instructions for Form 1116 for additional information. If you file Form 1116, report Schedule K-3, Part II, lines 27 through 30, on Form 1116, Part I, line 5, by separate category.

If you file Form 1118, add the amounts reported on Schedule K-3, Part II, lines 11 through 15, to other gross income you report in Form 1118, Schedule A, column 11, by separate category. Add the amounts reported on Schedule K-3, Part II, lines 27 through 30, to other amounts you report in Form 1118, Schedule A, column 13(j); Form 1118, Schedule H, Part II, column (e); or Form 1118, Schedule H, Part III, column (e), as applicable, by separate category.

**Line 12. Net long-term capital gain.** Line 12 doesn't include gains reported on lines 13, 14, and 15.

**Line 14. Unrecaptured section 1250 gain.** If gain is both unrecaptured section 1250 gain and net section 1231 gain, the gain is reported on line 14 and not on line 15. The partnership included an attachment indicating the amount of unrecaptured section 1250 gain that is also net section 1231 gain.

**Line 28. Net long-term capital loss.** Line 28 doesn't include losses reported on line 29.

**Lines 16 and 46. Section 986(c) gain and loss.** These lines report 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 the partnership's annual PTEP accounts. You'll need to determine your foreign currency gain or loss under section 986(c) with respect to distributed PTEP sourced from annual PTEP accounts that you have with respect to a foreign corporation, using Schedule K-3, Part V.

The amount of foreign currency gain and loss that you report on Form 1118 and other forms, for example, Form 1040 or 1120, will include your share of the partnership's foreign currency gain or loss under section 986(c) and your own foreign currency gain or loss under section 986(c). If you file Form 1118, complete the following.

1. Add the amount from Schedule K-3, Part II, line 16, to your other section 986(c) gain.
2. Report the total in Form 1118, Schedule A, column 9, by separate category.
3. Identify the type of gain as section 986(c) gain in Form 1118, Schedule A, column 10.
4. Add the amount from Schedule K-3, Part II, line 46, to your other section 986(c) losses.
5. Enter the total, as applicable, by separate category, in:
  - Form 1118, Schedule A, column 13(h);
  - Form 1118, Schedule H, Part II, column (e); or
  - Form 1118, Schedule H, Part III, column (e).

If you entered an amount in Form 1118, Schedule A, column 13(h), enter the type of loss as section 986(c) loss in Form 1118, Schedule A, column 13(i).

**Lines 17 and 47. Section 987 gain and loss.** If you file Form 1118, complete the following.

1. Add the amount from Schedule K-3, Part II, line 17, to your other section 987 gain.
2. Enter the total in Form 1118, Schedule A, column 9, by separate category.
3. Identify the type of gain as section 987 gain in Form 1118, Schedule A, column 10.
4. Add the amount from Schedule K-3, Part II, line 47, to your other section 987 loss.
5. Enter the total, as applicable, by separate category, in:

- Form 1118, Schedule A, column 13(h);
- Form 1118, Schedule H, Part II, column (e); or
- Form 1118, Schedule H, Part III, column (e).

If you entered an amount in Form 1118, Schedule A, column 13(h), enter the type of loss as section 987 loss in Form 1118, Schedule A, column 13(i).

**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 of the foreign currency gain or loss is determined by reference to the residence of the taxpayer, the foreign currency gain and loss will be reported in column (f). For example, if you're a U.S. resident, such gain or loss is U.S. source and wouldn't be reported on Form 1116 or 1118. If you file Form 1118, complete the following.

1. Add the amount from Schedule K-3, Part II, line 18, to your other section 988 gain.
2. Enter the total in Form 1118, Schedule A, column 9, by separate category.
3. Identify the type of gain as section 988 gain in Form 1118, Schedule A, column 10. See the instructions for column (f).
4. Add the amount from Schedule K-3, Part II, line 48, to your other section 988 loss.
5. Enter the total, as applicable, by separate category, in:
  - Form 1118, Schedule A, column 13(h);
  - Form 1118, Schedule H, Part II, column (e); or
  - Form 1118, Schedule H, Part III, column (e).

If you entered an amount in Form 1118, Schedule A, column 13(h), enter the type of loss as section 988 loss in Form 1118, Schedule A, column 13(i).

**Line 20. Other income.** If you file Form 1118, add the amount reported on this line to your other income and report the total in Form 1118, Schedule A, column 11, by separate category.

**Line 24. Total gross income.** If you file Form 1116, add the amounts from lines A, B, and C (and additional lines, if applicable) to your other foreign source gross income from those countries, and enter the totals on Form 1116, Part I, line 1a, taking into account any section 904(b) adjustments for capital gains, as described earlier, for Schedule K-3, Part II, [lines 11 through 15](#), or PTEP adjustments, as described earlier, for Schedule K-3, Part II, [lines 7 and 8](#), and line 16.

If you file Form 1118, add the amounts from lines A, B, and C (and additional lines, if applicable) to your other foreign source gross income from those countries, and enter the totals in Form 1118, Schedule A, column 11, taking into account any PTEP adjustments, as described earlier, for Schedule K-3, Part II, lines 7 and 8, and line 16.

## Section 2—Deductions (Lines 25 Through 54)

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. For purposes of allocating and apportioning expenses, in general, a partner adds the distributive share of the partnership's deductions with other deductions incurred directly by the partner or through other pass-through entities including partnerships, S corporations, and trusts (see Regulations section 1.904-5(a)(4)(iv) for a definition of pass-through entity); see Regulations section 1.861-8(e)(15). Schedule K-3, Part II, lines 25 through 53, generally follow 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 only requires separate reporting of certain deductions. See Form 1116, Part I, lines 2 through 5.

**Line 25. Expenses allocable to sales income.** If you file Form 1118, add the amount reported on this line to your other expenses allocable to sales income and report the total in Form 1118, Schedule A, column 13(f), by separate category.

**Line 26. Expenses allocable to gross income from performances of services.** If you file Form 1118, add the amount reported on this line to your other expenses allocable to gross income from performance of services and report the total in Form 1118, Schedule A, column 13(g), by separate category.

**Lines 31, 37, 44, and 45. Other deductions.** If you file Form 1118, add the amounts reported on these lines to your other deductions and report the total in Form 1118, Schedule A, column 13(j); Form 1118, Schedule H, Part II, column (e); or Form 1118, Schedule H, Part III, column (e), as applicable, by separate category.

**Line 32. Research & experimental (R&E) expenses.** Add the R&E expenses reported in column (f) to your other R&E expenses. After determining the portion of such expenses that are allocable to U.S. source income or foreign source income because they are performed predominantly in a particular geographic area, if you file Form 1118, report the remaining R&E expenses in Form 1118, Schedule H, Part I. See Regulations section 1.861-17(f).

**Lines 33 and 35. Allocable rental, royalty, and licensing expenses (depreciation, depletion, and amortization).** If you file Form 1118, add the amounts reported on these lines to your other allocable rental, royalty, and licensing expenses (depreciation, depletion, and amortization) and report the total in Form 1118, Schedule A, column 13(d), by separate category.

**Lines 34 and 36. Allocable rental, royalty, and licensing expenses (other than depreciation, depletion, and amortization).** If you file Form 1118, add the amounts reported on these lines to your other allocable rental, royalty, and licensing expenses (other than depreciation, depletion, and amortization) and report the total in Form 1118, Schedule A, column 13(e), as applicable, by separate category.



*If box 6 of Part I is checked, royalty expenses may include amounts for which you aren't allowed a deduction under section 267A. See the statement for box 6 of Part I attached to Schedule K-3.*

**Line 38. Charitable contributions.** Charitable contribution deductions shouldn't be reported on Form 1116 or 1118 because such deductions are allocable to U.S. source income.

**Lines 39 and 40. Interest expense specifically allocable under Regulations section 1.861-10(e) and Temporary Regulations section 1.861-10T.** If you file Form 1118, add the amounts reported on these lines to your other interest expense specifically allocable under Regulations section 1.861-10(e) and Temporary Regulations section 1.861-10T and report the total in Form 1118, Schedule H, Part II, lines 1b and c, column (b).

**Lines 41 through 43. Other interest expense.** If you file Form 1118, add the sum of the interest expense included on these lines to your other interest expense and report the total in Form 1118, Schedule H, Part II, line 2, column (b).

If you file Form 1116, allocate and apportion the sum of the interest expense included on these lines and report the allocated and apportioned amounts on the applicable separate category Form 1116, Part I, line 4b. Interest expense incurred by certain individuals, estates, and trusts is allocated and apportioned based on the categories of interest expense in sections 163 and

469, adjusted for any interest expense directly allocated under Temporary Regulations section 1.861-10T. See Regulations section 1.861-9(e)(3) and Temporary Regulations sections 1.861-9T(d)(1) and (3).

**Exception.** If you're a limited partner, and your ownership, together with ownership by persons that bear a relationship to the partner described in section 267(b) or section 707, of the capital and profits interest of the partnership is less than 10%, your distributive share of the partnership's interest expense generally reduces passive category foreign source gross income. See Regulations sections 1.861-9(e)(4)(i) and 1.904-4(n)(1)(ii) for further guidance. If you file Form 1118, report interest expense from such limited partners on the passive category Form 1118, Schedule A, column 13(j), unless the high-taxed income exception of section 904(d)(2)(B)(iii)(II) is applicable. If you file Form 1116, report such interest expense on the passive category Form 1116, Part I, line 4b, unless the high-taxed income exception of section 904(d)(2)(B)(iii)(II) is applicable. However, if your partnership interest is held in the ordinary course of your active trade or business, your share of the partnership's interest expense is apportioned in accordance with your share of gross foreign source income in each separate category and gross U.S. source income from the partnership. Report the interest expense on the appropriate Form 1118 or 1116, as applicable.

**Exception.** See Regulations sections 1.861-9(e)(8) and (9) for special rules concerning downstream and upstream partnership loans that require a matching of related interest income to interest expense allocations.



If box 6 of Part I is checked, interest expense may include amounts for which you aren't allowed a deduction under section 267A. See the statement for box 6 of Part I attached to Schedule K-3.

**Exception.** See Temporary Regulations section 1.861-9T(d)(1) for an exception to the apportionment of interest expense when an individual's foreign source income (including income excluded under section 911) doesn't exceed \$5,000. Such interest expense may be allocated entirely to U.S. source income.

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

**Note.** Foreign taxes that are creditable (even if a partner chooses to deduct such taxes) aren't reported as expenses on Part II. Don't claim a foreign tax credit on Form 1116 or 1118 for amounts reported on line 45. However, you may claim a deduction for such taxes on the applicable form, including Forms 1040 and 1120.

Creditable foreign taxes are reported on Part III, Section 4.

**Line 49. Other allocable deductions.** If you file Form 1118, add the amounts reported on this line to your other allocable deductions and enter the total in Form 1118, Schedule A, column 13(j), by separate category.

**Line 50. Other apportioned share of deductions.** If you file Form 1118, add the amounts reported on this line to your other apportioned share of deductions and report the total in Form 1118, Schedule H, Part II, column (e); or Form 1118, Schedule H, Part III, column (e), by separate category.

## Part III. Other Information for Preparation of Form 1116 or 1118

### Section 1—R&E Expenses Apportionment Factors

This section reports the information that you need to allocate and apportion your R&E expenses for foreign tax credit limitation purposes. R&E expenses are allocated and apportioned by the partner; see Regulations section 1.861-17(f)(1). Individual, estate, and trust partners will use this Section 1 to determine the R&E expenses reported on Form 1116, Part I. See the Instructions for Form 1116. Because Form 1116 doesn't include detailed entries for R&E expenses, the line instructions below only refer to Form 1118. Corporate partners will use this Section 1 to determine the R&E expenses reported on Form 1118, Schedule H, Part I.

**Line 1.** Add the amounts reported on line 1 by SIC code to your other gross receipts and report on Form 1118, Schedule H, Part I.

**Line 2.** Add the amounts reported on line 2 to the partner's other R&E expenses related to activity performed in the United States and the amount of R&E expenses related to activity performed outside the United States by SIC code. See the Instructions for Form 1118 to determine the exclusive apportionment of the R&E expenses.

### Section 2—Interest Expense Apportionment Factors

This section includes the information that you need to allocate and apportion your interest expense for foreign tax credit limitation purposes. This part is relevant for all partners with interest expense (including the share of the partnership's interest expense) except certain limited partners with less than a 10% partnership interest; see Regulations section 1.861-9(e)(4)(i). Individual, estate, and trust partners will use this Section 2 to determine the interest expense reported on Form 1116, Part I, line 4b. See the Instructions for Form 1116. Because the interest expense is reported on one line on Form 1116, the instructions below don't refer to Form 1116.

Corporate partners will use this Section 2 to determine the interest expense reported on Form 1118, Schedule H, Part II. The particular line reporting on Form 1118 is specified below.

**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, these Part III, Section 2, instructions generally apply to the partner's stewardship expenses.

**Line 3.** If you file Form 1118, add the amount reported on this line to your other assets attracting directly allocable interest expense under Regulations section 1.861-10(e) and report the total in Form 1118, Schedule H, Part II, line 1b, column (a).

**Line 4.** If you file Form 1118, add the amount reported on this line to your other assets attracting directly allocable interest expense under Regulations section 1.861-10T and report the total in Form 1118, Schedule H, Part II, line 1c, column (a).

**Line 5.** If you file Form 1118, add the amount reported on this line to your other assets excluded from apportionment formulas and report the total in Form 1118, Schedule H, Part II, line 1d, column (a).

**Line 6.** If you file Form 1118, add the amount reported on this line to your other assets used for apportionment and report the total in Form 1118, Schedule H, Part II, lines 2 and 3, column (a), as applicable.

Line 6a is the sum of lines 1 and 2 less the sum of lines 3, 4, and 5. 6a is divided into the types of assets on lines 6b, 6c, and 6d if you're a partner that is an individual, estate, or trust, or if you're a pass-through entity partner that may have an individual, estate, or trust as a partner.

**Example 5—Parts II and III: asset method apportionment of interest expense.** Kendall, a U.S. citizen, owns 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 separately 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 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 the USP loan.

Kendall's share of the interest expense for USP's business is \$2,000 and is apportioned on the basis of business assets. Because all business income is domestic source, the business assets are deemed domestic assets and reported in Schedule K-3, Part III, Section 2, line 6b, column (a). Kendall's \$2,000 share of the interest expense is reported in Schedule K-3, Part II, line 41, column (f), and is apportioned to U.S. source gross income by the partner; therefore, it doesn't need to be reported on Form 1116.

The interest expense for Kendall's share of 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. Kendall's distributive share of the adjusted basis in USP's stock is \$8,000 with respect to the stock generating domestic source income and \$12,000 with respect to the stock generating foreign source passive income. These amounts are reported in Schedule K-3, Part III, Section 2, line 6c, columns (a) and (c), respectively. \$800  $(\$8,000/\$20,000) \times \$2,000$  is apportioned to domestic source income and \$1,200  $(\$12,000/\$20,000) \times \$2,000$  is apportioned to foreign source passive income. The amount apportioned to foreign source passive income is reported on the passive category Form 1116, line 4b.

**Lines 7 and 8.** 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 corporate 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 956 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, if you're eligible for the section 245A deduction for

distributions received from that corporation, all of the value of its stock is generally 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)). See Regulations section 1.904(b)-3(c)(2).

The amount reported on line 7 is the value of stock of the partnership-owned specified 10%-owned foreign corporation that isn't a CFC. Use the information provided in the attachment to line 7 to determine if such amount should be reported on Form 1118, Schedule H, Part II, lines 3a through 3f, as (a) section 245A dividend, or (b) Other.

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

The amount reported on line 8 is the value of the stock in partnership-owned CFCs. Use the information provided in the attachment to line 8 to determine if such amount should be reported on Form 1118, Schedule H, Part II, lines 3a through 3f, as (a) section 245A dividend, or (b) Other.

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

Section 3 reports the information necessary for you to assign the FDII deduction to a source and separate category such that it may be reported on Form 1118, Schedule A; or Form 1116, Part I.

### Section 4—Foreign Taxes

Section 4 reports your share of the foreign income taxes paid or accrued by the partnership by separate category and source.

**Line 1.** Report the taxes on line 1 in the applicable portions of Form 1116, Part II, and Form 1118, Schedule B, Part I, for the applicable separate category of income. To complete those parts, refer to the statement attached to Schedule K-3, referred to earlier in the instructions for box 4 of Part I with 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).

The partner takes its distributive share of the partnership's foreign income taxes into account in the partner's tax year with or within which the partnership's tax year ends regardless of whether the partner or partnership takes foreign income taxes into account on the cash or accrual basis.

**Line 2.** Report the total reduction of taxes for each separate category of income from this line on Form 1116, Part III, line 12; and Form 1118, Schedule B, Part II, line 3.

**Line 3.** Report the redetermined foreign income taxes from this line on Schedule L (Form 1118), Foreign Tax Redeterminations, and Schedule C (Form 1116), Foreign Tax Redeterminations, as applicable. In addition, the partner should file an amended return, if required, to report the foreign tax redetermination and change in U.S. tax liability. See the instructions for Form 1116 or 1118 and Regulations sections 1.905-3 through -5 for additional information.

**Note.** If you're an accrual method taxpayer, generally you may not claim a credit for additional taxes reported on line 3 by the partnership unless those taxes have been paid. See section 905(c)(2) and Regulations section 1.905-3(a).

Use the information in the attachment provided by the partnership to complete Schedule L (Form 1118) and/or Schedule C (Form 1116), as applicable.

If the partnership checked the “Contested tax” box and reported information about a contested foreign income tax on line 3, the partnership has remitted a contested foreign income tax liability to a foreign country. Under Regulations section 1.905-1(f)(2), you as the partner may elect to claim a provisional foreign tax credit for your distributive share of such contested foreign income tax liability. To make the election to claim the provisional foreign tax credit, file Form 7204, Consent To Extend the Time To Assess Tax Related to Contested Foreign Income Taxes—Provisional Foreign Tax Credit Agreement. See the instructions for Form 1116 or 1118, and the Instructions for Form 7204 for additional information.

## Section 5—Other Tax Information

Section 5 reports the section 743(b) income adjustments allocated to you by source, separate category, and class of gross income. The section 743(b) income adjustments should be included as relevant in other parts of Schedule K-3. For example, the section 743(b) income adjustments should be reflected as part of the total depreciation reported on Part II, Section 2. Therefore, you don't need to adjust other reported amounts for the section 743(b) income adjustments.

No credit is allowed for taxes paid or accrued to a country described in section 901(j). However, a deduction is generally allowed with respect to a tax described in section 901(j).

## Part IV. Information on Partner's Section 250 Deduction With Respect to Foreign-Derived Intangible Income (FDII)

A domestic corporate partner should use this Part to calculate the partner's FDII on Form 8993.

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

**Lines 1 through 7.** A partner must include the amount reported to it on line 1 in calculating the gross income on Form 8993, line 1. The partner must also include any amounts that it identifies from Schedule K-3, lines 3 through 7, that aren't attributable to its DEI on Form 8993, Part I, lines 2a through 2f. Use information on Schedule K-3, Part IV, Section 2, lines 2(a) through (c), and in Section 3 to determine the expenses properly allocable to DEI on Form 8993, Part I, line 5.

**Example 6—partner's 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 solely to U.S. persons. The services give rise to domestic oil and gas extraction income (DOGEI) for purposes of section 250(b)(3)(A)(i)(V). USP has \$200 in gross receipts from sales of Product A, \$100 in cost of goods sold, 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 DEI. The net amount increases DC's DEI, which increases its deemed intangible income (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 50% of the net amount of \$25 ( $\$100 - (\$50 + \$25) = \$25$ ) is reported on Schedule K-3, Part IV, Section 1, line 6, 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, 50% or \$500 of the partnership's adjusted basis in Asset C (\$1,000) is reported to DC on Schedule K-3, Part IV, Section 1, line 8. 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.

**Note.** Some of the amounts reported on these lines related to distributions by foreign corporations may be attributable to PTEP in annual PTEP accounts that a partner has with respect to a foreign corporation and are therefore excludable from the partner's gross income. See sections 959(a) and 959(d).

**Line 8. Partnership QBAI.** A partner must include the amount reported to it on this line, in calculating the QBAI used to determine its DTIR on Form 8993, Part I, line 7b. However, for certain items determined by the partner that affect the amount of a partner's adjusted bases included in its share of partnership specified tangible property, the partner must use and the partnership must provide information that separately distinguishes between the amount of the adjusted bases in a partnership's tangible property that the domestic corporation would include in its adjusted bases in the partnership specified tangible property and the amount of the adjusted bases in the partnership's tangible property that the domestic corporation would not include in its adjusted bases in the partnership specified tangible property; see Regulations section 1.250(b)-2(g).

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

**Line 9. Gross receipts.** A partner must include the amounts reported to it on this line, on Form 8993, Part II, line 9b. However, the partner must only include the portion of the amounts from Schedule K-3, Part IV, Section 2, line 9, columns (a) through (c), that are attributable to its gross DEI on Form 8993, Part I, line 4.

**Line 10. COGS.** A partner must include the amounts reported to it on this line, on Form 8993, Part II, line 10b. However, the partner must only include the portion of the amount on Schedule K-3, Part IV, Section 2, line 10, that is attributable to its gross DEI on Form 8993, Part I, line 4.

**Line 11. Allocable deductions.** A partner must include the amounts reported to it on this line, on Form 8993, Part II, line 13.

**Line 12. Other apportioned deductions.** A partner must include the amounts reported to it on this line, on Form 8993, Part II, line 17. However, the partner must only include the portion of the amount on Schedule K-3, Part IV, Section 2, line 12, that is attributable to its gross DEI on Form 8993, Part I, line 4.

## Section 3—Other Information for Preparation of Form 8993

### Interest Expense and Interest Expense Apportionment Factors

This section reports the information that you need to allocate and apportion your interest expense for FDII purposes.

**Lines 13A and 13B.** Include these amounts on Form 8993, Part I, line 5, and/or Part II, line 14.

**Line 13C. Other interest expense.** Add the interest expense to your other interest expense.

**Exception.** Certain corporate partners with a less-than-10% interest in a partnership shall directly allocate their distributive shares of the partnership's interest expense to its distributive share of partnership gross income; see Regulations section 1.861-9(e)(4). After apportionment, if necessary, include the appropriate amount of interest expense on Form 8993, Part I, line 5, and/or Part II, line 14.

**Line 14. Interest expense apportionment factors.** Corporate partners will use this section to determine the interest expense reported on Form 8993, Part I, line 5; and Part II, line 14.

### R&E Expenses and R&E Expenses Apportionment Factors

This section reports the information that you need to allocate and apportion your R&E expenses for FDII purposes. R&E expenses are allocated and apportioned by the partner. See Regulations section 1.861-17(f)(1).

**Line 15. Gross receipts by SIC code.** Add the amounts to the partner's other gross receipts by SIC code.

**Line 16. R&E expenses by SIC code.** Add the amounts to the partner's other R&E expenses by SIC code.

## Part V. Distributions From Foreign Corporations to Partnership

Use Part V to determine your share of distributions by foreign corporations to the partnership (with your share being reported in this Part V) that are attributable to PTEP in your annual PTEP accounts with respect to the foreign corporations (which are excludable from your gross income) or non-previously taxed E&P, and the amount of foreign currency gain or loss on the PTEP that you're required to recognize under section 986(c). The amount of foreign currency gain or loss on the PTEP that you're required to recognize under section 986(c) is equal to the excess of the U.S. dollar amount of the PTEP over your U.S. dollar basis in the PTEP. If the distributed PTEP was maintained in a functional currency other than the U.S. dollar, the U.S. dollar amount of the distributed PTEP is determined by translating the distributed PTEP into U.S. dollars using the spot rate on the date that the PTEP was distributed; see section 989(b)(1). Your U.S. dollar basis in the distributed PTEP is generally equal to the U.S. dollar amount of E&P that you previously included in gross income; see sections 989(b)(1) and (3).

Also use Part V, in combination with other information known to you, to claim and figure a foreign tax credit on Form 1116 or 1118, and, if eligible, to claim and figure a dividends received deduction under section 245A on Form 1120 with respect to the distributions that are attributable to non-previously taxed E&P.

Include the U.S. dollar amount of E&P distributions from qualified foreign corporations in determining the amount of qualified dividends you report on Form 1040, line 3a, or the amount of dividends reported on Form 1120. A foreign corporation identified as a qualified foreign corporation in column

(j) that is a PFIC (as defined in section 1297) as to you for the tax year of the foreign corporation in which the distribution was made, or the preceding tax year, isn't a qualified foreign corporation, regardless of whether it's indicated as such in column (j). See section 1(h)(11)(C)(iii)(I) and Notice 2004-70, 2004-44 I.R.B. 724.

Include the U.S. dollar amount of E&P distributions from a nonqualified foreign corporation in determining the amount of ordinary dividends you report on Form 1040, line 3b; or Form 1120.

However, don't include the U.S. dollar amount of E&P distributions from a foreign corporation to the extent the distributions are attributable to PTEP in annual PTEP accounts that you have with respect to the foreign corporation, or attributable to E&P that are excludable from your gross income under section 1293(c), in determining the amount of dividends that you report on Form 1040, line 3a or 3b; or Form 1120. See Notice 2019-01, 2019-02 I.R.B. 275.

Include the amount of foreign currency gain or loss that you're required to recognize under section 986(c) in determining the amount to report on Form 1120; or Schedule 1 (Form 1040), line 8.

**Note.** If the partnership is a domestic partnership, the partnership may have annual PTEP accounts under section 959 with respect to the foreign corporation or may have earnings with respect to the foreign corporation that, when distributed, can be excluded from the partnership's income under section 1293(c) for amounts included in income by the partnership under section 951(a) or 1293(a), respectively. In such a case:

- If the distributing foreign corporation is a PFIC and isn't a CFC with respect to which you or any other direct or indirect partner is a U.S. shareholder (as defined in section 951(b)), the partnership may exclude your share of any distribution from the foreign corporation in your Schedule K-3, Part V, to the extent such distribution constitutes a distribution excludable from the partnership's gross income under section 1293(c);
- If the distributing foreign corporation is a CFC with respect to which the partnership has PTEP for amounts it included in income under section 951(a) (only to the extent such PTEP relates to tax years of the CFC beginning before January 25, 2022), the partnership may exclude your share of any distribution from the foreign corporation in your Schedule K-3, Part V, to the extent such distribution is attributable to PTEP under section 959; or
- If the distributing foreign corporation is both a CFC and a PFIC, and the partnership has no PTEP for amounts included in income under section 951(a) that can be excluded from the partnership's gross income under section 959 when distributed, the partnership will report your share of the entire distribution in your Schedule K-3, Part V, and will provide you with information on any amounts that may be excluded from the partnership's gross income under section 1293(c), if applicable.

If the partnership is a domestic partnership and received a distribution that is (a) attributable to PTEP in an annual PTEP account of the partnership, or (b) attributable to E&P that are excludable from the partnership's gross income under section 1293(c), that is treated as a dividend for purposes of section 1411 (that is, for purposes of the net investment income tax (NIIT)) and, therefore, may be net investment income (NII) (such PTEP, NII PTEP), it'll attach a statement to Schedule K-3 regarding your share of the partnership's NII PTEP. If you're an individual who is a U.S. citizen or resident, or a domestic trust or estate, use the U.S. dollar amounts of NII PTEP reported on the statement, and follow the Instructions for Form 8960 to figure and report your NII. Corporate partners aren't subject to the NIIT; see Regulations sections 1.1411-1 through -10 for details. Note that your share of a distribution received by the partnership that

is attributable to PTEP in your annual PTEP accounts, or attributable to E&P that are excludable from your gross income under section 1293(c), may also be treated as a dividend for purposes of section 1411 and, therefore, may be NII PTEP.

**Note.** Columns (e) and (f) are reported in the foreign corporation's functional currency.

## Part VI. Information on Partner's Section 951(a)(1) and Section 951A Inclusions

Use Part VI to include in gross income the appropriate amount of subpart F income inclusion and/or section 951(a)(1)(B) inclusion, and to complete Form 8992.

For each CFC listed in column (a) of which you're a U.S. shareholder, include the amounts of subpart F income and section 951(a)(1)(B) inclusion reported on Part VI in determining the amount you report on Form 1120, Schedule C, line 16; or Schedule 1 (Form 1040), line 8.

Note that, for corporate partners, in determining the amount you report on Form 1120, Schedule C, line 16, the section 951(a)(1)(B) inclusion amounts reported on Part VI may be reduced under Regulations section 1.956-1(a)(2).

For each CFC listed in column (a) for which you're a U.S. shareholder, report the tested income and tested loss for each CFC in Schedule A (Form 8992), columns (c) and (d), respectively, and include your share of each CFC's items described in Schedule K-3, Part VI, columns (i) through (n), in determining the amount to report in Schedule A (Form 8992), columns (e) through (j), respectively.

## Part VII. Information Regarding Passive Foreign Investment Companies (PFICs)

U.S. persons may be required to complete and file Form 8621 and/or include amounts in income with respect to PFICs owned through a partnership. This includes PFICs with respect to which no qualified electing fund (QEF) or section 1296 MTM election has been made and unpedigreed QEFs (section 1291 funds), as well as PFICs with respect to which a pedigreed QEF, a section 1296 MTM, or other election has been, or may be, made. For information regarding the requirement to file Form 8621, as well as certain filing exceptions, see Regulations section 1.1298-1 and the Form 8621 instructions.

Use the information provided in this Schedule K-3, Part VII (including any supplemental attachments (Table 6 or 7, from the Partnership Instructions for Schedules K-2 and K-3, if applicable)), as instructed below, to complete Form 8621 with respect to each PFIC for which you have a filing obligation. Additionally, for any PFIC that you own through your interest in the partnership, use the information provided in this Schedule K-3, Part VII (including any supplemental attachments (Table 6 or 7, from the Partnership Instructions for Schedules K-2 and K-3, if applicable)), to determine your income inclusion with respect to the PFIC (if any) and complete your U.S. federal income tax return.

If a PFIC reported on this Schedule K-3 also constitutes a CFC within the meaning of section 957 (PFIC/CFC) and you're a U.S. shareholder (within the meaning of section 951(b)) with respect to that PFIC/CFC, the information on this schedule with respect to that PFIC/CFC may not be relevant to you. The box in Section 1, column (m), will be checked if the PFIC also constitutes a CFC. See section 1297(d) for additional information.

## Section 1—General Information

**Columns (a) through (e).** If you're required to complete Form 8621 with respect to a PFIC reported on this schedule, use this information to complete the Form 8621 background information.

**Columns (f) through (i).** If you're required to complete Form 8621 with respect to a PFIC reported on this schedule, enter this information on Form 8621, Part I, lines 1 through 4.

**Note.** If you're making an election under Regulations section 1.1291-10, 1.1297-3, or 1.1298-3 with respect to a PFIC reported on this Schedule K-3, Part VII, you may need additional information from the partnership regarding the value of the PFIC shares reported in column (i) that isn't reported here.

**Column (j).** If the partnership is a domestic partnership, this column will indicate to you (using the codes below) whether the partnership has made an election with respect to the PFIC which binds the partners. If the partnership is a foreign partnership, no code will be entered in this column; however, if certain information with respect to the PFIC is provided, you may be able to make certain elections with respect to the PFIC on Form 8621.

### Partnership Election Codes for Column (j)

Codes	Election type
QEF	Qualified electing fund election
MTM	Section 1296 mark-to-market election

**Note.** In general, if the partnership is a domestic partnership and has made a pedigreed QEF or section 1296 MTM election with respect to a PFIC, the partnership isn't required to complete Schedule K-3, Part VII, with respect to that PFIC if the partnership files Form 8621 for that PFIC. In that case, you may not be required to file Form 8621 with respect to that PFIC and income inclusions with respect to the PFIC, if any, will be figured by the partnership and reported to you on Schedule K-1, Part III. However, if the partnership is a domestic partnership that has made a pedigreed QEF or section 1296 MTM election with respect to a PFIC for which the partnership doesn't file Form 8621, if the partnership owns stock of an unpedigreed QEF, or if the partnership is making a section 1296 MTM election with respect to stock in a PFIC 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), it's required to complete Schedule K-3, Part VII, with that PFIC's information, and you may be required to file Form 8621 with respect to that PFIC. See Regulations section 1.1298-1(b)(2) and the Form 8621 instructions for additional information.

Additionally, if the partnership marks to market stock of a PFIC as described in Regulations section 1.1291-1(c)(4), the partnership generally doesn't need to report information about the PFIC in Schedules K-2 and K-3, Part VII. In such a case, the partnership should report its MTM gain or loss on Schedule K and report your share of those amounts in Schedule K-1, Part III. Note, however, in such a case there may be instances in which you'll need additional information from the partnership to meet your tax obligations with respect to a PFIC for which the partnership has marked to market the stock as described in Regulations section 1.1291-1(c)(4), such as, when the section 1291 rules apply to you because the stock wasn't marked by the partnership in the first year of its holding period. In such instances, the partnership should provide you with the needed information and may use Schedule K-3, Part VII, to do so.

**Columns (k) through (n).** Use the information provided in these columns to make certain elections with respect to a PFIC on Form 8621, Part II. If you don't intend to make any election

with respect to a PFIC reported on this Schedule K-3, Part VII, you may generally ignore these boxes for that PFIC.

**Note.** If you're making an election under Regulations section 1.1291-9, 1.1297-3, or 1.1298-3 with respect to a PFIC/CFC, or a PFIC that is a former PFIC within the meaning of Regulations section 1.1291-9(j)(2)(iv), you may need additional information from the partnership that isn't reported on this Schedule K-3, Part VII, including information with respect to the PFIC's E&P.

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

**Note.** The partnership will complete Section 2 with respect to each PFIC reported in Section 1, and each line completed with respect to a PFIC in Section 1 corresponds to the same line in Section 2. If the PFIC has no current year activity or has no other information for the partnership to report in columns (c) through (o), the partnership will only include the name and employer identification number (EIN) of the PFIC in columns (a) and (b) and will leave columns (c) through (o) blank with respect to that PFIC.

### QEF Information

**Columns (c) and (d).** This information is to assist you in determining your income inclusions from certain PFICs with respect to which a QEF election has been, or may be, made.

If the partnership is a domestic partnership that has made a pedigreed QEF election with respect to a PFIC, and the domestic partnership files Form 8621 for that PFIC, that PFIC will typically not be reported in Schedule K-3, Part VII. In that case, your share of the domestic partnership's QEF inclusions, if any, will be reported to you in Schedule K-1, Part III. However, in the event the domestic partnership doesn't file Form 8621 for a PFIC for which the domestic partnership has made a pedigreed QEF election, or if the domestic partnership owns stock of an unpedigreed QEF, you may be required to file Form 8621 for that PFIC. See Regulations section 1.1298-1(b)(2) for additional information.

If you're required to file Form 8621 for a PFIC reported in Schedule K-3, Part VII, enter the amounts from columns (c) and (d) on Form 8621, Part III, lines 6a and 7a, respectively, and include these amounts in gross income on your U.S. federal income tax return unless you're making an election under section 1294 with respect to the QEF for the current tax year. If you're making a section 1294 election with respect to the QEF for the current tax year, use the rest of Form 8621, Part III, lines 8 and 9, to determine the amount of deferred tax with respect to the QEF for the current tax year.

**Note.** If your interest in the partnership constitutes an applicable partnership interest within the meaning of section 1061(c) or the regulations thereunder, you may need additional information not reported on this Schedule K-3 from the QEF with respect to its computation of its net capital gain (as defined in Regulations section 1.1293-1(a)(2)) to perform certain computations under section 1061 or the regulations thereunder. The partnership may aid you in obtaining the information from the QEF, though the QEF isn't required to provide it. See section 1061 and Regulations sections 1.1061-4 and -6 for more information.

### Section 1296 Mark-to-Market Information

**Columns (e) and (f).** This information is to assist you in determining your gain or loss from certain PFICs with respect to which an MTM election under section 1296 has been, or may be, made (MTM PFIC), including PFICs with respect to which the partnership is making a non-initial section 1296 MTM election.

If the partnership is a domestic partnership and has made an MTM election under section 1296 with respect to a PFIC (other than a non-initial section 1296 MTM election), and the domestic partnership files Form 8621 for that MTM PFIC, that MTM PFIC will typically not be reported in Schedule K-3, Part VII. In that case, your share of the domestic partnership's MTM gain or loss, if any, will be reported to you in Schedule K-1, Part III. However, in the event the domestic partnership doesn't file Form 8621 for an MTM PFIC or if the domestic partnership is making a non-initial section 1296 MTM election with respect to a PFIC, you may have a reporting obligation for that PFIC. See Regulations section 1.1298-1(b)(2) for additional information. A partnership is also not required to complete Schedule K-3, Part VII, with respect to a PFIC if it has marked stock of a PFIC to market as described in Regulations section 1.1291-1(c)(4), though it may provide you with certain information in Schedule K-3, Part VII, if the PFIC stock isn't marked to market in the first year of the partnership's holding period.

If you're required to file Form 8621 with respect to an MTM PFIC reported in Schedule K-3, Part VII, enter the amount from column (f) on Form 8621, Part IV, line 10a. You may need additional information from the partnership regarding your share of its adjusted tax basis in the MTM PFIC stock to complete the rest of Form 8621, Part IV. Your share of the partnership's adjusted tax basis in the MTM PFIC stock may be equal to your share of the fair market value (FMV) of the stock at the beginning of the prior tax year reported in column (e). However, your share of the partnership's adjusted tax basis in the MTM PFIC stock may not be equal to the FMV of the stock at the beginning of the prior tax year, depending on the amounts of prior year income inclusions and the amounts allowed a deduction with respect to the MTM PFIC. Once you determine your share of the partnership's adjusted tax basis in the MTM PFIC shares, enter this amount on Form 8621, Part IV, line 10b, and use the rest of Form 8621, Part IV, lines 10c through 12, to determine your MTM gain or loss to include on your U.S. federal income tax return.

Additionally, if the partnership is a domestic partnership and is making a non-initial section 1296 MTM election with respect to a PFIC, you should use the information for that PFIC from Schedule K-3, Part VII, Section 2, columns (g) through (o), and the corresponding instructions described below to determine whether you have received an excess distribution with respect to the PFIC stock, or whether your distributive share of the domestic partnership's section 1296(a) gain for the tax year (if any) is treated as an excess distribution. This will help you determine any corresponding additions to tax and interest charges under section 1291. For special rules related to RICs that are shareholders of PFICs with respect to which a non-initial section 1296 MTM election has been made, see Regulations section 1.1296-1(i)(3).

### Section 1291 and Other Information

Generally, this information is to assist you in satisfying any information reporting obligations for, and in figuring income inclusions with respect to, section 1291 funds. However, except as otherwise provided, this information may be relevant to PFICs with respect to which a pedigreed QEF election, a section 1296 MTM election (including a non-initial section 1296 MTM election), or other election has been made by you or the partnership.

**Column (g).** This information is provided to help you assess your holding period in the PFIC stock through your ownership in the partnership. Unless also provided in Section 1, column (g), with respect to an acquisition of stock in the PFIC during the partnership's tax year, these dates don't need to be entered on Form 8621 or on your U.S. federal income tax return.

**Note.** The dates entered in this column (g) will be the dates the partnership acquired the PFIC stock. If you acquired your partnership interest after the date listed with respect to a PFIC, you may have a different holding period with respect to the PFIC stock.

**Column (h).** Your share of the amount of cash and FMV of property distributed by the PFIC during the tax year may be reported on different parts of Form 8621, or not reported at all on Form 8621.

## Where on Form 8621 To Report Distributions From PFICs

IF you're a shareholder of a...	THEN...
section 1291 fund, PFIC with respect to which a domestic partnership is making a non-initial section 1296 MTM election, or a PFIC for which now may be treated as a QIC, and for which you're required to file Form 8621	enter this amount on Form 8621, Part V, line 15a.
QEF for which you aren't making a section 1294 election for the current tax year	you don't need to enter this on Form 8621.
QEF for which you're making a section 1294 election for the current tax year	enter this amount on Form 8621, Part III, line 8b.
MTM PFIC (other than a PFIC with respect to which the partnership is making a non-initial section 1296 MTM election)	you don't need to enter this on Form 8621.

**Note.** Deemed distributions by QEFs aren't reported in Schedule K-3, Part VII. If you make, or have made, an election under section 1294 and are deemed to have received a distribution from the QEF, this information is required to complete Form 8621, Parts III and VI. See section 1294(f) and Temporary Regulations section 1.1294-1T for additional information.

**Note.** If you have made a section 1294 election with respect to a QEF owned by the partnership, a distribution of earnings by the QEF will terminate the section 1294 election to the extent the election is attributable to the earnings distributed. In such a case, enter the amount of the distribution on Form 8621, Part VI, line 22. See Temporary Regulations section 1.1294-1T(e) and the Form 8621, Part VI, instructions for additional information.

**Column (i).** This information is to help you assess any information related to the date of a distribution from a PFIC. You don't need to enter these dates on Form 8621 or on your U.S. federal income tax return.

**Column (j).** This information is to help you assess any available foreign tax credit attributable to an excess distribution from a section 1291 fund or PFIC with respect to which the partnership is making a non-initial section 1296 MTM election in which you're a shareholder through your ownership in the partnership. If you're required to file Form 8621 with respect to one of these types of PFICs owned by the partnership, use this amount to determine your foreign tax credit to include on Form 8621, Part V, line 16d. See section 1291(g) for additional information on creditable foreign taxes.

**Note.** Your share of foreign taxes in column (j) includes only foreign taxes within the meaning of section 1291(g) and doesn't include taxes attributable to QEF inclusions under section 1293. If you're a corporate shareholder of a QEF that meets the ownership requirements of section 1293(f)(3), use Part VIII to

determine your deemed paid foreign tax credit under section 960, including with respect to inclusions under section 1293(f).

**Column (k).** This information is to help you assess your excess distribution and resulting other income, additional tax, and interest charge with respect to each section 1291 fund in which you're a shareholder through your ownership in the partnership or with respect to a PFIC for which the partnership is making a non-initial section 1296 MTM election. If you're required to file Form 8621 with respect to one of these types of PFICs owned by the partnership, use this amount to determine the amount to include on Form 8621, Part V, line 15b, and use the rest of Form 8621, Part V, lines 15 and 16, to determine the amount of any excess distribution and resulting other income, additional tax, and interest charge to include on your U.S. federal income tax return with respect to the section 1291 fund.

**Note.** The information in column (k) is only relevant with respect to section 1291 funds and PFICs with respect to which the partnership is making a non-initial section 1296 MTM election and isn't relevant for any PFIC with respect to which a pedigreed QEF election or other section 1296 MTM election has been, or may be, made.

**Column (l).** This information is provided to help you assess the treatment to you on any disposition by the partnership of stock in a PFIC in combination with column (g). These dates don't need to be entered on Form 8621.

**Note.** Your holding period of the PFIC stock may have begun on a different date than the partnership's holding period.

**Columns (m) through (o).** This information is to assist you in figuring any gain or loss on the partnership's disposition of PFIC stock.

For each section 1291 fund in which you're a shareholder through your ownership in the partnership or with respect to any PFIC for which the partnership is making a non-initial section 1296 MTM election for which you're required to file Form 8621, enter the amount from Schedule K-3, Part VII, Section 2, column (o), on Form 8621, Part V, line 15f, and use the rest of Form 8621, Part V, line 16, to determine the amount of any resulting other income, additional tax, and interest charge to include on your U.S. federal income tax return with respect to the PFIC. Your adjusted tax basis in the PFIC shares as reported by the partnership should reflect any adjustments in the partnership's shares in the PFIC that are specific to you; you may also need to make corresponding adjustments to your basis in your partnership interest.

For each MTM PFIC (including a PFIC with respect to which a domestic partnership is making a non-initial section 1296 MTM election) in which you're a shareholder through your ownership in the partnership, and with respect to which you're required to file Form 8621, enter the amounts from Schedule K-3, Part VII, Section 2, columns (m) and (n), on Form 8621, Part IV, lines 13a and 13b, respectively. Complete the rest of Form 8621, Part IV, lines 13 and 14, to determine your MTM gain or loss to include on your U.S. federal income tax return. Your basis in the MTM PFIC shares as reported by the partnership should reflect adjustments made by the partnership with respect to the MTM PFIC, as well as any other partner-specific adjustments such as section 743(b) adjustments; you may also need to make corresponding adjustments to your basis in your partnership interest. See section 1296(b)(2) for additional information on adjustments to basis in MTM PFIC shares held by foreign partnerships with respect to section 1296 income inclusions and deductions.

For each QEF in which you're a shareholder through your ownership in the partnership with respect to which you have previously made a section 1294 election, and for which you're

required to file Form 8621, if amounts are reported in Schedule K-3, Part VII, Section 2, columns (m) through (o), with respect to the QEF, the disposition may have partially or completely terminated your election, and you may need to complete Form 8621, Part VI, lines 21 through 24. See Temporary Regulations section 1.1294-1T and the Form 8621 instructions for additional information.

**Note.** If you have made a QEF election with respect to a PFIC which you own indirectly through the partnership, you may be required to adjust your share of the tax basis in the PFIC shares as reported by the partnership, and thus your gain or loss reported in column (o), by cumulative QEF inclusions and distributions made by the QEF; your basis in your partnership interest may need to be similarly adjusted. See section 1293(d) for more information on basis adjustments with respect to QEFs.

## Part VIII. Partner's Interest in Foreign Corporation Income (Section 960)

**Note.** Amounts on this part are reported in foreign currency.

In general, for purposes of the foreign tax credit, 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 gross income; see sections 960(a) and (d). See also section 1293(f) with respect to 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 with respect to a CFC. However, they must make an election under section 962.

To calculate the foreign taxes deemed paid by a partner that's a corporate U.S. shareholder of a CFC held by a partnership, the income, deductions, and taxes of the CFC must be assigned to separate categories of income and then to income groups in those separate categories; see Regulations section 1.960-1(c)(1). This is completed on Schedule Q (Form 5471), CFC Income by CFC Income Groups. The income groups include the subpart F income group, 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). 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)(3) with respect to the PTEP groups. The PTEP groups aren't reported in this Schedule K-3, Part VIII.

A partner claiming a deemed paid credit with respect to an inclusion under section 951 will use Schedule K-3, Part VIII, to complete Form 1118, Schedule C; see section 960(a). The partner will use column (ii) to report in Form 1118, Schedule C, column 8(a). The partner will use column (iii) to report in Form 1118, Schedule C, column 6. The partner will use column (iv) to report in Form 1118, Schedule C, column 7. The partner must also complete Form 1118, Schedule C, column 5, with information from Schedule K-3, Part VIII.

**Note.** The amount entered in Form 1118, Schedule C, column 8(a), won't equal the share of the net income in the subpart F income group if there's a qualified deficit. See Regulations section 1.960-2(b)(3)(ii).

Similarly, a partner claiming a deemed paid credit with respect to an inclusion under section 951A will use the information reported on Schedule K-3, Part VIII, line 2, to complete Form 1118, Schedule D; see section 960(d). The partner will use column (ii) to report in Form 1118, Schedule D, Part I, column 5. The partner will use Schedule K-3, Part VIII, line 2, column (iii), to report in Form 1118, Schedule D, Part I, column 6. The partner will use Schedule K-3, Part VIII, line 2, column (iv), to report in Form 1118, Schedule D, Part I, column 8.

**Example 7—use Schedule K-3 to claim deemed paid credit.** In Year 1, USP, a domestic partnership, has two domestic corporate partners with equal interests in the partnership. USP wholly owns CFC. CFC's reference ID number is 1234. CFC earns passive category interest income of 100u sourced from Country X and pays a withholding tax of \$20 to Country X. The code for Country X is X. USP reports the following to each of its partners in Schedule K-3, Part VIII.

### Example 7—USP's Schedule K-3, Part VIII, for Partners

A	EIN or reference ID number of CFC . . . . .	1234	B	Separate category . . . . .	PAS
C	If PAS was entered on line B, applicable grouping under Regulations section 1.904-4(c) . . . . .				(i)
	(i) Country code	(ii) Partner'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)	
<b>1</b> Subpart F income groups					
<b>a</b> Dividends, interest, rents, royalties, and annuities (total)					
<b>(1)</b> Unit: CFC	X	50u	100u	\$20	

On Form 1118, Schedule C, for the passive category income, each domestic corporate partner reports the information

received on Schedule K-3 as shown in [Example—Domestic Corporate Partner's Form 1118, Schedule C](#).

## Example—Domestic Corporate Partner's Form 1118, Schedule C

1a. Name of Foreign Corporation	5. Subpart F Income Group			6. Total Net Income in Subpart F Income Group (functional currency)	7. Total Eligible Current Year Taxes in Subpart F Income Group (U.S. dollars)	8. Section 951(a)(1) Inclusion Attributable to Subpart F Income Group		9. Divide Column 8(a) by Column 6	10. Tax Deemed Paid (multiply column 7 by column 9)
	(a) Reg. sec. 1.960-1(d)(2)(ii)(B)(2)	(b) Reg. sec. 1.904-4(c)(3)(i)-(iv)	(c) Unit			(a) Functional Currency	(b) U.S. Dollars		
CFC	DIRRA	i	CFC	100u	\$20	50u		0.500	\$10

## Part IX. Partner's Information for Base Erosion and Anti-Abuse Tax (Section 59A)

If you're a corporate partner of a partnership, use this part from the partnership to determine your BEAT liability, if any. The BEAT is generally levied on certain large corporations that have deductions and certain other similar items paid or accrued to foreign related parties 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." Corporate partners that are applicable taxpayers under Regulations section 1.59A-2 may be subject to the BEAT. See Regulations section 1.59A-7 for further information regarding the application of section 59A to partnerships, and the Instructions for Form 8991 to determine whether a corporate partner is an applicable taxpayer subject to the BEAT. Certain small partners aren't required to include the partner's amount of base erosion tax benefits resulting from a base erosion payment made by a partnership. See Regulations section 1.59A-7(d)(2) for further information regarding the application of the exception for small partners.

### Section 1—Applicable Taxpayer

#### Lines 1 Through 4

The amounts shown on lines 1 through 4 reflect the partner's distributive share of gross receipts from the partnership's business or rental activities. The partner should use the information from lines 2 through 4 to complete Form 8991, Part I, line 1b.

**Line 1. Gross receipts for section 59A(e).** This is the partner's distributive share of gross receipts for the tax year as described in Temporary Regulations section 1.448-1T(f)(2)(iv).

**Line 5. Amounts included in the denominator of the base erosion percentage as described in Regulations section 1.59A-2(e)(3)(i)(B).** This is the partner's distributive share of

the partnership's deductions to be included in the denominator of the partner's 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

#### Lines 6 Through 19

The partner should use the information from lines 7 through 16 to complete Form 8991, Schedule A, lines 2 through 11.

**Line 7. Cost sharing transaction payments.** Include the amounts from columns (b) and (c) on Form 8991, Schedule A, line 2.

**Line 8. Purchase or creations of property rights for intangibles (patents, trademarks, etc.).** This is the partner's distributive share of amounts paid or accrued to a foreign person that's a related party of the partner in connection with the acquisition or creation of intangible property rights (patents, copyrights, trademarks, trade secrets, etc.) that's subject to the allowance for depreciation (or amortization in lieu of depreciation). Include the amounts from columns (b) and (c) on Form 8991, Schedule A, line 3.

**Line 9. Rents, royalties, and license fees.** Include the amounts from columns (b) and (c) on Form 8991, Schedule A, line 4.

**Line 10a. Compensation/consideration paid for services NOT excepted by section 59A(d)(5).** Include the amounts from columns (b) and (c) on Form 8991, Schedule A, line 5a.

**Line 10b. Compensation/consideration paid for services excepted by section 59A(d)(5).** Include the amount from column (a) on Form 8991, Schedule A, line 5b.

**Line 11. Interest expense.** If you're a foreign corporate partner, the partnership completed Worksheet A for your distributive share of items. Use the information to help complete your Form 8991.

**Worksheet A**

Foreign Partner's Distributive Share of 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) Foreign partner's distributive share of interest expense on liabilities described in Regulations section 1.882-5(a)(1)(ii)(A) or (B)			
(2) Foreign partner's distributive share of interest paid on U.S.-booked liabilities under Regulations section 1.882-5(d)(2)(vii)			
(3) Foreign partner's distributive share of interest paid on all other liabilities of the partnership			
Totals. Combine lines (1) through (3)			

**Column (a).** This is the partner's distributive share of all 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).** This is the partner's distributive share of all interest expense 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) that is paid or accrued to a foreign person that is a related party of the partner.

**Column (c).** This is the partner's base erosion tax benefit attributable to interest expense paid or accrued by the partnership that is allowed as a deduction in the current tax year. See Regulations section 1.59A-3(b)(4) for more information on how a foreign corporation with a U.S. trade or business or permanent establishment determines the amount of interest that is a base erosion tax benefit.

For domestic corporate partners, include the total amount from line 11 in Form 8991, Schedule A, line 6, columns (a-1), (a-2), (b-1), and (b-2).

For foreign corporate partners, the amounts in columns (b) and (c) are used to determine the amounts to be included in Form 8991, Schedule A, line 6, columns (a-1), (a-2), (b-1), and (b-2).

**Line 12. Payments for the purchase of tangible personal property.** Include the amounts from columns (b) and (c) on Form 8991, Schedule A, line 7.

**Line 13. Premiums and/or other considerations paid or accrued for insurance and reinsurance as covered by sections 59A(d)(3) and (c)(2)(A)(iii).** Include the amounts from columns (b) and (c) on Form 8991, Schedule A, line 8.

**Line 14a. Nonqualified derivative payments.** The amounts on this line are reported on Form 8991, Schedule A, line 9.

**Column (a).** This is the partner's distributive share of all amounts paid or accrued by the partnership attributable to derivative contracts as defined in section 59A(h)(4).

**Column (b).** This is the partner's distributive share of amounts paid or accrued by the partnership to a foreign person that is a related party of the partner attributable to derivative contracts that aren't eligible for the qualified derivative payments exception under Regulations section 1.59A-6 (nonqualified derivative payments).

**Column (c).** This is the partner's base erosion tax benefit attributable to nonqualified derivative payments paid or accrued by the partnership to a foreign person that is a related party of the partner.

**Line 14b. Qualified derivative payments excepted by section 59A(h).** This is the partner's distributive share of qualified derivative payments excepted by section 59A(h). 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 with respect to 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). With respect to a contract with both derivative and nonderivative components, a payment isn't a qualified derivative payment if it's properly allocable to the nonderivative component.

Enter the amount from line 14b on Form 8991, Schedule A, line 9b. This meets the reporting requirements of Regulations sections 1.59A-6(b)(2) and 1.6038A-2(b)(7)(ix).

**Line 15. Payments reducing gross receipts made to surrogate foreign corporation.** Include the amounts from columns (b) and (c) on Form 8991, Schedule A, line 10.

**Line 16. Other payments—specify.** Include the amounts from columns (b) and (c) on Form 8991, Schedule A, line 11.

**Line 17, column (c).** Base erosion tax benefits related to payments included 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 30% statutory withholding tax rate or subject to tax under Regulations section 1.884-4(a)(2)(ii) at the 30% statutory rate. Include the amount from column (c) on Form 8991, Schedule A, line 13.

**Line 18, column (c).** Portion of base erosion tax benefits included 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 a reduced withholding rate pursuant to an income tax treaty or subject to a reduced rate of tax under Regulations section 1.844-4(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. Include the amount from column (c) on Form 8991, Schedule A, line 14.

For more information regarding this computation, see the *Instructions for Worksheet for Schedule A, Line 14, Columns (a-2) and (b-2)* in the Instructions for Form 8991.

**Line 19, column (c). Total base erosion tax benefits.** The partner should use the information from Section 1, lines 1 through 5, and Section 2, line 19, column (c), to assist in the

partner's determination of whether the partner is an applicable taxpayer and to complete the applicable lines on Form 8991 and Schedule A.

## Part X. Foreign Partner's Character and Source of Income and Deductions

Use this part if you're a foreign person that earns ECI from U.S. and/or foreign sources and/or U.S. source FDAP income to determine if you have a U.S. tax obligation for the applicable tax year. You may be required to figure your U.S. income tax liability and file U.S. income tax returns and forms (for example, Form 1120-F, Form 1040-NR, and other applicable forms).

### Section 1—Gross Income

The partnership uses Part X to report your distributive share of income that is subject to tax in the United States. You must report items of income from your Part X on your tax return and accompanying schedules. Each line in this section of the schedule corresponds to a line on Form 1065, Schedule K, lines 1 through 11. For a more detailed description of the types of income listed on each line, see *Income (Loss)* under *Part III* in the Partner's Instructions for Schedule K-1 (Form 1065).

**Column (a). Total.** This is your distributive share of the partnership's gross income.

**Column (b). Partner determination.** If income is reported in column (b), it means that the partnership was unable to determine the income's source. You must determine the source of income in column (b). The source of income is important in determining how to report income on your tax return. Each type of income has its own sourcing rules. For example, if you have capital gains listed in column (b), you must determine the source of such gain under section 865. For more information on sourcing rules for particular items of income, see Pub. 514 and section 865. Once you have determined the source of the income in column (b), use the statement the partnership attached to Schedule K-3 to report the income. If you determine the income is U.S. source, the statement attached to Schedule K-3 will advise reporting the income as either ECI, FDAP, or other. If you determine the income is foreign source, the statement will advise whether the income should be reported as ECI.

**Columns (c) and (d). Effectively connected income.** Nonresident aliens should complete Form 1040-NR using the following instructions.



*Foreign corporations should report ECI on Schedule P (Form 1120-F), in accordance with its instructions.*

**Lines 1 through 5.** Report amounts of ECI from lines 1 through 5 on Schedule E (Form 1040), Supplemental Income and Loss, and attach it to your tax return. See *Income (Loss)* under *Part III* in the Partner's Instructions for Schedule K-1 (Form 1065) for more information on how to complete Schedule E.

**Line 6. Interest income.** Report amounts of ECI from line 6 on Form 1040-NR, line 2b.

**Line 7. Dividends.** Report amounts of ECI from line 7 on Form 1040-NR, line 3a or 3b.

**Line 8. Dividend equivalents.** If you're a pass-through entity and provide Schedules K-3 to your partners, see the instructions for Part X, line 8, in the Partnership Instructions for Schedules K-2 and K-3 (Form 1065).

**Line 9. Royalties and license fees.** Report amounts of ECI from line 9 on Schedule E (Form 1040), line 4.

**Lines 10 through 14.** Report amounts of ECI from lines 10 through 14 on Schedule D (Form 1040) or Form 4797, Sales of Business Property, attached to your tax return. Such amounts include, for example, gains from the disposition of a U.S. real property interest. See *Income (Loss)* under *Part III* in the Partner's Instructions for Schedule K-1 (Form 1065), and the instructions for Form 1040-NR, line 7, for more information on how to report this income.

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

**Line 14. Net section 1231 gain.** Line 14 doesn't include net section 1231 gain that is also unrecaptured section 1250 gain. Such gain is reported on line 13.

**Note.** Don't report foreign source income listed in column (d) as ECI if you determine it's subpart F income as defined under section 952(a).



*Don't report income listed in column (d) as ECI if it's dividends, interest, or royalties paid by a foreign corporation in which you own or are considered to own (within the meaning of section 958) more than 50% of the total combined voting power of all classes of stock entitled to vote.*

### Column (e). U.S. source Non-ECI (FDAP).

**Nonresident aliens.** Generally, amounts of U.S. source non-ECI from column (e) are entered on your Schedule NEC (Form 1040-NR).

**Foreign corporations.** Generally, amounts of U.S. source non-ECI from column (e) are reported on your Form 1120-F, Section I.



*Although the partnership determined this income isn't effectively connected to its trade or business, the income could be effectively connected to your U.S. trade or business. See Pub. 519, U.S. Tax Guide for Aliens, or the Instructions for Form 1120-F for more information on when U.S. source income is ECI.*

**Column (f). U.S. source Non-ECI (Other).** If you're engaged in any trade or business within the United States, report these amounts as ECI on your tax return as directed by the Instructions for Form 1040-NR or the Instructions for Form 1120-F. If you aren't so engaged, you don't need to report these amounts on your tax return. Transportation income subject to tax under section 887 is reported on Form 1040-NR, line 23c, and Form 1120-F, Section I, line 9, as applicable.

### Section 2—Deductions, Losses, and Net Income

In figuring a foreign corporation's or nonresident alien's ECI, deductions are allowed only if they are allocated and apportioned to income effectively connected with a U.S. trade or business; see 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), Deductions Allocated to Effectively Connected Income Under Regulations Section 1.861-8; and Schedule I (Form 1120-F), Interest Expense Allocation Under Regulations Section 1.882-5. For additional guidance for nonresident aliens, see the Instructions for Form 1040-NR. Section 2 also generally corresponds to the deductions separately reported on Form 1065, Schedule K.

Add the foreign corporation's share of partnership expenses to the foreign corporation's expenses and enter those expenses on Schedule H (Form 1120-F). The following instructions provide specific instructions for reporting expenses on Form 1120-F. See

the Instructions for Form 1040-NR to determine the appropriate placement of the nonresident alien partner's share of the partnership's expenses.

**Column (b). Partner determination.** Include the foreign corporation's share of partnership expenses that must be apportioned to ECI by the foreign corporation on Schedule H (Form 1120-F), Part II. This includes R&E expenses and interest expense.

**Columns (c) and (d). Partnership determination—ECI.** Enter the foreign corporation's share of partnership deductions definitely related and allocated to ECI in Schedule H (Form 1120-F), Part I.

**Columns (e) through (g). Partnership determination—non-ECI.** Enter the foreign corporation's share of partnership deductions definitely related and allocated to non-ECI in Schedule H (Form 1120-F), Part I.

**Line 2. R&E expenses.** Add the foreign corporation's share of partnership R&E expenses to the foreign corporation's other R&E expenses and apportion such R&E expenses to ECI. Enter the resultant amount on Schedule H (Form 1120-F), Part I and Part II. See Regulations section 1.861-17(f).

**Line 7. Interest expense on U.S.-booked liabilities.** A foreign corporate partner generally reports its share of interest expense on the partnership's U.S.-booked liabilities, as described in Regulations section 1.882-5(d)(2)(vii), on Schedule P (Form 1120-F), Part II, line 8. Then, the total interest expense on U.S.-booked liabilities from Schedule P (Form 1120-F), line 8, (including the amount from Schedule K-3, Part X, Section 2, line 7, column (b)) will be entered in Schedule I (Form 1120-F), line 9, column (b).

**Line 10. Section 59(e)(2) expenditures.** R&E expenses aren't included on this line. R&E expenses that are also section 59(e)(2) expenditures are included on line 2.

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

**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.



*If box 6 of Part I is checked, interest or royalty expense may include amounts for which the partner isn't allowed a deduction under section 267A. See the statement for box 6 of Part I attached to Schedule K-3.*

### Section 3—Allocation and Apportionment Methods for Deductions

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

**Line 1a. Gross ECI.** Add the amount reported on this line to other amounts you report on Schedule H (Form 1120-F), Part III, line 21a.

**Line 1b. Worldwide gross income.** Add the amount reported on this line to other amounts you report on Schedule H (Form 1120-F), Part III, line 21b.

**Line 2a. Average U.S. assets (inside basis).** If you use the ratio of the U.S. assets (inside basis) to the worldwide assets method to apportion expenses to ECI, check "Yes" on Schedule H (Form 1120-F), Part III, line 24, and attach a statement.

**Line 3a. Average U.S.-booked liabilities of the partnership.** These amounts may be reported by the foreign partner on Schedule P (Form 1120-F), Part III, line 11; and in Schedule I (Form 1120-F), line 8, column (b). As indicated in the instructions for Part X, Section 2, line 7, the interest expense on U.S.-booked liabilities as defined in Regulations section 1.882-5(d)(2)(vii) should generally be reported by the foreign partner on Schedule P (Form 1120-F), line 8; and in Schedule I (Form 1120-F), line 9, column (b).

**Line 3b. Directly allocated partnership indebtedness.** These amounts may be reported by the foreign partner on Schedule P (Form 1120-F), Part III, line 10a. The interest expense on indebtedness described in Regulations section 1.882-5(a)(1)(ii)(B) should generally be reported by the foreign partner on Schedule P (Form 1120-F), Part II, line 7; and Schedule I (Form 1120-F), line 22.

**Line 4a. Personnel of U.S. trade or business.** Add the amount reported on this line to other amounts you report on Schedule H (Form 1120-F), Part III, line 23a.

**Line 4b. Worldwide personnel.** Add the amount reported on this line to other amounts you report on Schedule H (Form 1120-F), Part III, line 23b.

**Line 5. Gross receipts from sales or services by SIC code.** If you have R&E expenses, use the appropriate information from this line.

**Lines 7 and 8. Other allocation and apportionment key.** Check "Yes" on Schedule H (Form 1120-F), Part III, line 24 or 25, if you used another apportionment method based on amounts entered on lines 7 and 8. Attach a statement to Form 1120-F.

### Section 4—Reserved for Future Use

## Part XI. Section 871(m) Covered Partnerships

If you're a U.S. or foreign person that has entered into a section 871(m) transaction that references units in the partnership, use this part to determine your U.S. withholding tax and reporting obligations with respect to those transactions under section 871(m) and related sections, including for purposes of determining the amounts to report on Forms 1042 and 1042-S.

This part will be provided if the partnership is 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. The information in this part is to permit you to determine your U.S. withholding tax and reporting obligations under section 871(m) and related rules if you're a U.S. or foreign person that has entered into a section 871(m) transaction that references units in the partnership, including for purposes of determining the amounts to report on Forms 1042 and 1042-S.

If you've entered into a potential section 871(m) transaction with another person that references units in the partnership, you may need this information to determine your obligations under section 871(m) and related rules. Generally, a potential section 871(m) transaction is a securities lending or sale-repurchase transaction, a notional principal contract, or any other specified financial transaction that references one or more underlying securities, and an underlying security is any interest in an entity that could give rise to a U.S. source dividend. See Regulations section 1.871-15 for additional information, including the definitions of underlying securities and potential section 871(m) transactions.

## Part XII. Section 871(m) Tax Liability of a Qualified Derivatives Dealer (QDD)

If you're a U.S. or foreign person that is a partner in a partnership that is, or has one or more branches that are, a QDD, as defined under the qualified intermediary agreement in Rev. Proc. 2022-43 (QDD partnership), use this part to determine your U.S. tax or withholding tax and reporting obligations with respect to the QDD activities, including, if applicable, to determine the amounts to report on Forms 1042 and 1042-S.

## Part XIII. Foreign Partner's Distributive Share of Deemed Sale Items on Transfer of Partnership Interest

Use this part to determine the information you must report about the effectively connected gain or loss arising from the transfer of an interest in a partnership.

**In general.** Section 864(c)(8) requires a foreign partner that directly or indirectly transfers part or all of an interest in a partnership engaged in the conduct of a trade or business in the United States to include in income the effectively connected gain or loss from the transfer. A partnership distribution is considered a transfer when it results in recognition of gain or loss. See Regulations section 1.731-1(a).

Information regarding the transfer of an interest in a partnership engaged in the conduct of a trade or business in the United States must be provided to the partnership no later than 30 days after the transfer by any of the following transferors: (a) a foreign person; (b) a domestic partnership that has a foreign person as a direct partner; or (c) a domestic partnership that has actual knowledge that a foreign person holds, through one or more partnerships, an interest in the domestic partnership.

To determine the amount of gain or loss described in section 864(c)(8), generally, a foreign transferor must first determine its gain or loss on the transfer of a partnership interest (outside gain or loss). For this purpose, outside gain or loss is determined

under all relevant provisions of the Code and the regulations thereunder. A foreign transferor may recognize capital gain or loss (outside capital gain or loss) and ordinary gain or loss (outside ordinary gain or loss) on the transfer of its partnership interest and must separately apply section 864(c)(8) with respect to its capital gain or loss and its ordinary gain or loss. Part XIII, line 1, provides the information for the partner to determine its outside ordinary gain or outside ordinary loss. The partner then applies Regulations section 1.751-1(a)(2) to determine its outside capital gain or loss.

**Line instructions.** The foreign transferor must compare the outside gain or loss amounts with the relevant aggregate deemed sale effectively connected gain or loss provided on Part XIII, lines 2 and 3. The foreign transferor only includes in income the lower of the outside amount and the deemed sale effectively connected amount. This determination is made separately with respect to capital gain or loss and ordinary gain or loss. For example, a foreign transferor would compare its outside ordinary gain to its aggregate deemed sale effectively connected ordinary gain, treating the former as effectively connected gain only to the extent it doesn't exceed the latter. Similarly, the foreign transferor would compare its outside capital gain to its aggregate deemed sale effectively connected capital gain, treating the former as effectively connected gain only to the extent it doesn't exceed the latter.

Amounts entered on lines 4 and 5 are subsets of the amount entered on line 3 and don't apply to a foreign transferor that is a corporation.

Unless there is an amount only entered on line 7, use this information as follows.

- If you're a nonresident alien individual, foreign trust, or foreign estate, complete Schedule P (Form 1040-NR).
- If you're a foreign corporation, complete Schedule P (Form 1120-F), Parts IV and V.
- If you're a foreign partnership, complete Form 4797 and Form 8949, Sales and Other Dispositions of Capital Assets, as needed.
- If this is an installment sale, see Form 6252.

If an amount is only entered on line 7, use it to determine gain or loss from the transfer of the partnership interest when completing Form 8949.