



IRS Nationwide Tax Forum | 2023

The New Schedules K-2 and K-3 and Form 1116, Foreign Tax Credit and Reporting Items from Schedule K-3 on Form 1040-NR, U.S. Nonresident Alien Income Tax Return

Objectives

Today our presentation will:

- Provide an overview of the new schedules K-2 & K-3, their purpose.
- Discuss Parts I, II and III of the schedules K-2 & K-3.
- Explain an exception to filing the Schedules K-2 & K-3.
- Explain generally how nonresident alien (NRA) individuals are taxed.
- Provide an overview of Schedule K-3, Part X.
- Identify where to report various types of partnership items of income, deductions, credits, etc. of an NRA partner on a Form 1040-NR.

Acronyms/Definition

- FTC Foreign Tax Credit
- IRC Internal Revenue Code
- TCJA Tax Cuts and Jobs Act
- USP Domestic Partnership
- ECI Effectively Connected Income
- FDAP Fixed, Determinable, Annual, or Periodical
- USTB U.S. Trade or Business

Purpose

- ❖ The IRS created two new schedules (K-2, K-3) to (i) enhance compliance with the TCJA and (ii) improve the quality of information reported by pass-through entities both to the IRS and to owners of such entities
 - Schedule K-2 is an extension of Schedule K of Form 1065* and is used to report items of international tax relevance from the operation of a partnership.
 - Schedule K-3 is an extension of Schedule K-1 of Form 1065* and is generally used to report to partners their distributive share of the items reported on Schedule K-2.
- *There are also Schedules K-2 and K-3 for Forms 1120-S (for S corporations) and 8865 (for certain U.S. partners of foreign partnerships).

Purpose – cont.

- ❖ Line 16 of the Schedule K (Forms 1065 and 8865) now has a box for the filer to check and then complete Schedules K-2 and K-3 for a partnership that has items of international tax relevance
 - No longer requires reporting of “Foreign Transactions” on line 16.
- ❖ Similarly, line 16 of the Schedule K-1 (Forms 1065 and 8865) has a check box for the filer to indicate to the partner the attachment of Schedule K-3.
- ❖ Line 14 of Schedules K and K-1 of the Form 1120-S have the same check boxes.

Schedule K-2/K-3 Overview (Part I)

- ❖ Part I – Partnership’s Other International Information
 - These items are not specifically reported elsewhere on the schedule K-2/K-3.
 - If any boxes are checked the partnership should have attached statements to the Schedules K-3 with additional information not otherwise reported on the Schedules K-2/K-3.
 - Items generally relevant for the FTC for individuals:
 - Box 1: Gain on personal property sale
 - Box 4: Foreign tax translation
 - Box 5: High-taxed income

Schedule K-2/K-3 Overview (Part I) – cont.

Schedule K-3 (Form 1065) 2022

Page 2

Name of partnership

EIN

Name of partner

SSN or TIN

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

Check box(es) for additional specified attachments. See instructions.

- | | | | |
|--|---|--|--|
| <input type="checkbox"/> 1. Gain on personal property sale | <input type="checkbox"/> 5. High-taxed income | <input type="checkbox"/> 8. Form 5471 information | <input type="checkbox"/> 11. Dual consolidated loss |
| <input type="checkbox"/> 2. Foreign oil and gas taxes | <input type="checkbox"/> 6. Section 267A disallowed deduction | <input type="checkbox"/> 9. Other forms | <input type="checkbox"/> 12. Form 8865 information |
| <input type="checkbox"/> 3. Splitter arrangements | <input type="checkbox"/> 7. Form 8858 information | <input type="checkbox"/> 10. Partner loan transactions | <input type="checkbox"/> 13. Other international items
(attach description and statement) |
| <input type="checkbox"/> 4. Foreign tax translation | | | |

Schedule K-2/K-3 Overview (Part I) – Table 1

Information on Personal Property Sold (For use with Sch. K-2 (Form 1065), Part I, box 1; also for use with Sch. K-3 (Form 1065), Part I, box 1)

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

Schedule K-2/K-3 Overview (Part II)

- ❖ Part II – Foreign Tax Credit Limitation
 - Section 1 - Gross Income
 - Section 2 – Deductions

Schedules K-2/K-3, Part II, Section 1 – Gross Income

Part II Foreign Tax Credit Limitation							
Section 1—Gross Income							
Description	(a) U.S. source	Foreign Source				(f) Sourced by partner	(g) Total
		(b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other (category code _____)		
1 Sales							
A _____							
B _____							
C _____							
2 Gross income from performance of services							
A _____							
B _____							
C _____							
3 Gross rental real estate income							
A _____							
B _____							
C _____							
4 Other gross rental income							
A _____							
B _____							
C _____							
5 Guaranteed payments							
6 Interest income							
A _____							
B _____							
C _____							
7 Ordinary dividends (exclude amount on line 8)							
A _____							
B _____							
C _____							

Schedules K-2/K-3, Part II, Section 1 – Gross Income (cont.)

Part II Foreign Tax Credit Limitation (continued)							
Section 1 – Gross Income (continued)							
Description	(a) U.S. source	Foreign Source				(f) Sourced by partner	(g) Total
		(b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other (category code _____)		
16 Section 986(c) gain							
17 Section 987 gain							
18 Section 988 gain							
19 Section 951(a) inclusions							
A _____							
B _____							
C _____							
20 Other income (see instructions)							
A _____							
B _____							
C _____							
21 Reserved for future use							
A _____							
B _____							
C _____							
22 Reserved for future use							
A _____							
B _____							
C _____							
23 Reserved for future use							
A _____							
B _____							
C _____							
24 Total gross income (combine lines 1 through 23)							
A _____							
B _____							
C _____							

Schedules K-2/K-3, Part II, Section 2 – Deductions

Part II Foreign Tax Credit Limitation (continued)							
Section 2 – Deductions							
Description	(a) U.S. source	Foreign Source				(f) Sourced by partner	(g) Total
		(b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other (category code _____)		
25 Expenses allocable to sales income							
26 Expenses allocable to gross income from performances of services							
27 Net short-term capital loss							
28 Net long-term capital loss							
29 Collectibles loss							
30 Net section 1231 loss							
31 Other losses							
32 Research & experimental (R&E) expenses							
A SIC code:							
B SIC code:							
C SIC code:							
33 Allocable rental expenses—depreciation, depletion, and amortization							
34 Allocable rental expenses—other than depreciation, depletion, and amortization							
35 Allocable royalty and licensing expenses—depreciation, depletion,							

Schedules K-2/K-3, Part II, Section 2 – Deductions (cont.)

Part II Foreign Tax Credit Limitation (continued)							
Section 2—Deductions (continued)							
Description	(a) U.S. source	Foreign Source				(f) Sourced by partner	(g) Total
		(b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other (category code _____)		
46 Section 986(c) loss							
47 Section 987 loss							
48 Section 988 loss							
49 Other allocable deductions (see instructions)							
50 Other apportioned share of deductions (see instructions)							
51 Reserved for future use							
52 Reserved for future use							
53 Reserved for future use							
54 Total deductions (combine lines 25 through 53)							
55 Net income (loss) (subtract line 54 from line 24)							

Schedules K-2/K-3 Overview (Part III)

- ❖ Part III – Other Information for Preparation of Form 1116 or 1118
 - Section 1 – R&E Expenses Apportionment Factors
 - Section 2 – Interest Expense Apportionment Factors
 - Section 4 – Foreign Taxes
 - Section 5 – Other Tax Information

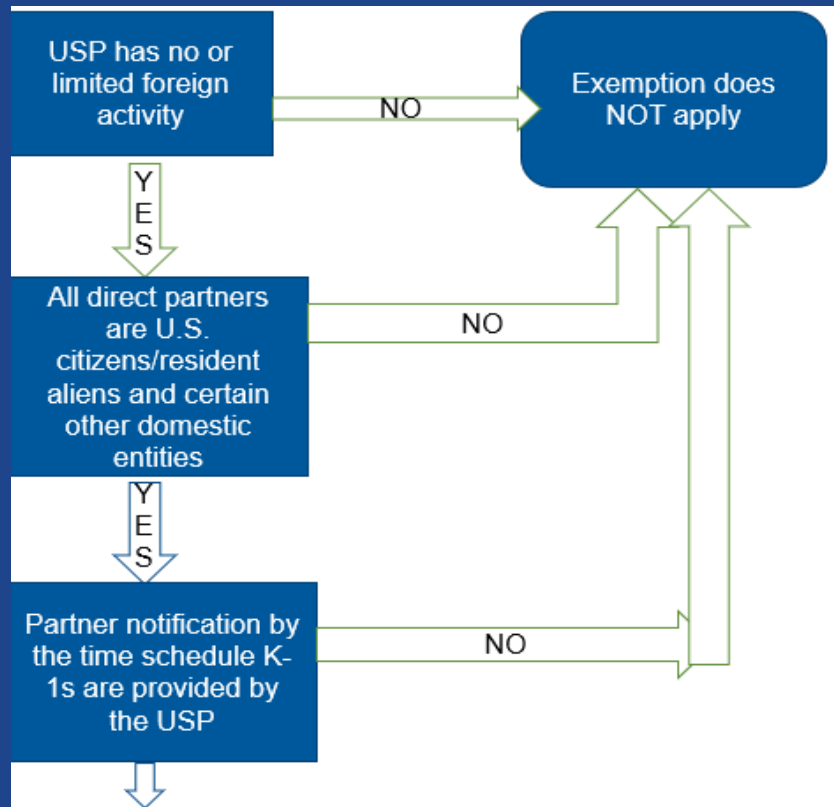
Schedules K-2/K-3, Part III, Section 4 – Foreign Taxes

Part III Other Information for Preparation of Form 1116 or 1118 (continued)						
Section 4 – Foreign Taxes						
Description	(a) Type of tax	(b) Section 951A category income		(c) Foreign branch category income		
		U.S.	Foreign	U.S.	Foreign	Partner
1 Direct (section 901 or 903) foreign taxes: <input type="checkbox"/> Paid <input type="checkbox"/> Accrued						
A _____						
B _____						
C _____						
D _____						
E _____						
F _____						
2 Reduction of taxes (total)						
A Taxes on foreign mineral income						
B Reserved for future use						
C International boycott provisions						
D Failure-to-file penalties						
E Taxes with respect to splitter arrangements . .						
F Taxes on foreign corporate distributions						
G Other						
3 Foreign tax redeterminations						
A _____						
Related tax year: _____						
Date tax paid: _____						
Contested tax <input type="checkbox"/>						
B _____						
Related tax year: _____						
Date tax paid: _____						
Contested tax <input type="checkbox"/>						
C _____						
Related tax year: _____						
Date tax paid: _____						
Contested tax <input type="checkbox"/>						
4 Reserved for future use						
5 Reserved for future use						
6 Reserved for future use						

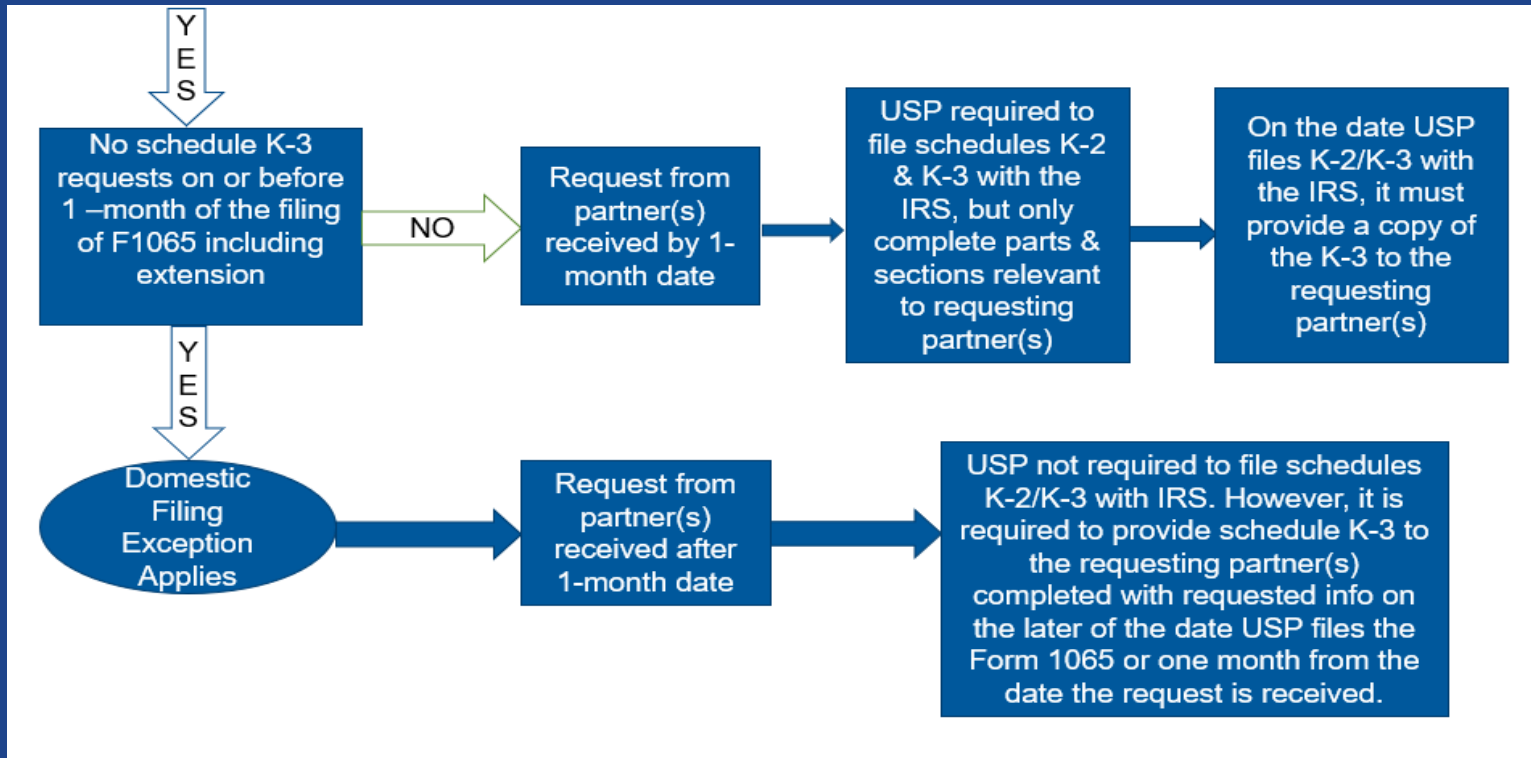
Schedules K-2/K-3, Part III, Section 4 – Foreign Taxes (cont.)

Part III Other Information for Preparation of Form 1116 or 1118 (continued)								
Section 4 – Foreign Taxes (continued)								
	(d) Passive category income			(e) General category income			(f) Other (category code ____)	(g) Total
	U.S.	Foreign	Partner	U.S.	Foreign	Partner		
1								
A								
B								
C								
D								
E								
F								
2								
A								
B								
C								
D								
E								
F								
G								
3								
A								
B								
C								
4								
5								
6								

Flowchart – Domestic Filing Exception



Flowchart – Domestic Filing Exception – (cont.)



Schedules K-2/K-3 Overview (Part X)

- ❖ Generally, Part X must be filed by every partnership that has a foreign partner, or if a foreign person has a U.S. income tax reporting obligation with respect to any item of partnership income, deduction, gain, or loss.
- ❖ A partnership that does not have or receive sufficient information or notice regarding a partner should presume the partner is foreign or that a foreign person has a U.S. income tax reporting obligation with respect to a partnership item.

Schedules K-2/K-3 Overview (Part X) – (cont.)

- ❖ Partners will use this information to compute and report any U.S. tax liability with respect to income effectively connected with a U.S. trade or business on Form 1040-NR, Form 1120-F, or other applicable forms.
- ❖ See the instructions for exceptions and special rules for foreign partnerships.

Taxation of Nonresident Alien Individuals (NRA) Overview (1 of 2)

- Nonresident alien individuals (NRAs) are generally taxed only on U.S. source FDAP income and, if they are engaged in a U.S. trade or business, on income that is effectively connected with that U.S. trade or business (USTB).
- The general source rules for income items can be found in IRC §§ 861 through 865.

Taxation of Nonresident Alien Individuals (NRA) Overview (2 of 2)

- There are generally two categories of income for NRAs that are subject to U.S. tax:
 - Fixed or determinable annual or periodical (FDAP) income – IRC § 871(a), taxed on a gross basis at a rate of 30%.
 - Effectively connected income (ECI) – IRC § 871(b), taxed on a net-basis similar to U.S. residents.

ECI Through Partnerships

IRC § 875(1)

- Under IRC § 875(1), a foreign person that is a partner in a partnership, whether domestic or foreign, is engaged in a USTB if the partnership is engaged in a USTB
 - Because the foreign partner is treated as though they were conducting a U.S. trade or business directly, the foreign partner's distributive share of the partnership's ECI will be taxed at the same rates that apply to a U.S. person. For example, graduated rates for ordinary income and capital gains rates for capital gains.

ECI Through Partnerships

Distributive Share (1 of 2)

- The test of whether a partnership is engaged in a USTB is the same as in the case of an NRA.
- Determination of whether a distributive share of income, gain, or loss is ECI is generally made at the partnership level. However, under certain circumstances, income not considered ECI at the partnership level may be considered ECI at the partner level.

ECI Through Partnerships Distributive Share (2 of 2)

- To determine ECI, an NRA must allocate and apportion its distributive share of deductions, expenses, and losses to gross ECI and non-ECI using the rules of Treas. Reg. 1.861-8 through -20, and Temp. Reg. 1.861-8T through -9T. The partnership should allocate and apportion some expenses and report those to the NRA already allocated and apportioned on Schedule K-3. Other expenses must be allocated and apportioned by the NRA partner (e.g. certain interest expense and losses).

ECI Through Partnerships

Reporting of Partnership Items (1 of 2)

- The NRA partner's share of ordinary business income that is ECI and U.S. source guaranteed payments are reported on Schedule E (Form 1040) and carried over to Form 1040-NR.
- Items that could vary in tax treatment across the individual partner's tax returns are reported separately on Schedule K-1/K-3 as "separately stated items." These include items such as capital gains and losses, dividend income, and charitable contributions.

ECI Through Partnerships

Reporting of Partnership Items (2 of 2)

- The character of the income, expense, gain or loss is generally retained for separately stated items when reported by the NRA partner. Such separately stated items are then combined with other similar items on the Form 1040-NR.

Schedule K-3, Part X Overview

- Breaks out the character (ECI vs. Non-ECI) and source (U.S. vs. foreign) of a foreign partner's income.
- Will assist in determining the proper tax forms/schedules required and reporting of a foreign partner's distributive share of partnership items and corresponding federal tax.
- Generally, Part X of Schedule K-3 must be completed by every partnership that has a foreign partner.
- A partnership that does not have sufficient information regarding a partner should presume the partner is foreign.

Schedule K-3, Part X, Section 1 – Gross Income

Part X Foreign Partner's Character and Source of Income and Deductions							
Section 1 – Gross Income							
Description	(a) Total	(b) Partner determination	Partnership Determination				
			ECI		Non-ECI		
			(c) U.S. source	(d) Foreign source	(e) U.S. source (FDAP)	(f) U.S. source (other)	(g) Foreign source
1 Ordinary business income (gross)							
2 Gross rental real estate income							
3 Other gross rental income							
4 Guaranteed payments for services							
5 Guaranteed payments for use of capital							
6 Interest income							
7 Dividends							
8 Dividend equivalents							
9 Royalties and license fees							
10 Net short-term capital gain							
11 Net long-term capital gain							
12 Collectibles (28%) gain							
13 Unrecaptured section 1250 gain							
14 Net section 1231 gain							
15 Reserved for future use							
16 Reserved for future use							
17 Reserved for future use							
18 Reserved for future use							
19 Reserved for future use							
20 Other income (loss) not included on lines 1 through 19							
21 Gross income (sum of lines 1 through 20)							

Schedule K-3, Part X, Section 2 – Deductions, Losses, and Net Income

Part X Foreign Partner's Character and Source of Income and Deductions (continued)						
Section 2—Deductions, Losses, and Net Income						
Description	(a) Total	(b) Partner determination	Partnership Determination			
			ECI		Non-ECI	
			(c) U.S. source	(d) Foreign source	(e) U.S. source (FDAP)	(f) U.S. source (other)
1 Expenses related to ordinary business income (gross)						
2 Research and experimental expenses						
3 Expenses from rental real estate						
4 Expenses from other rental activities						
5 Royalty and licensing expenses						
6 Section 179 deduction						
7 Interest expense on U.S.-booked liabilities						
8 Interest expense directly allocable under Regulations sections 1.882-5(a)(1)(ii)(B) and 1.861-10T						
9 Other interest expense						
10 Section 59(e)(2) expenditures						
11 Net short-term capital loss						
12 Net long-term capital loss						
13 Collectibles loss						
14 Net section 1231 loss						
15 Other losses						
(1)						
(2)						
16 Charitable contributions						
17 Other:						
18 Other:						
19 Reserved for future use						
20 Reserved for future use						
21 Reserved for future use						
22 Reserved for future use						
23 Reserved for future use						
24 Total (sum of lines 1 through 23)						
25 Net income (loss) (line 21 (Section 1) minus line 24 (Section 2))						

Schedule K-3, Part X, Section 3 – Allocation and Apportionment Methods for Deductions

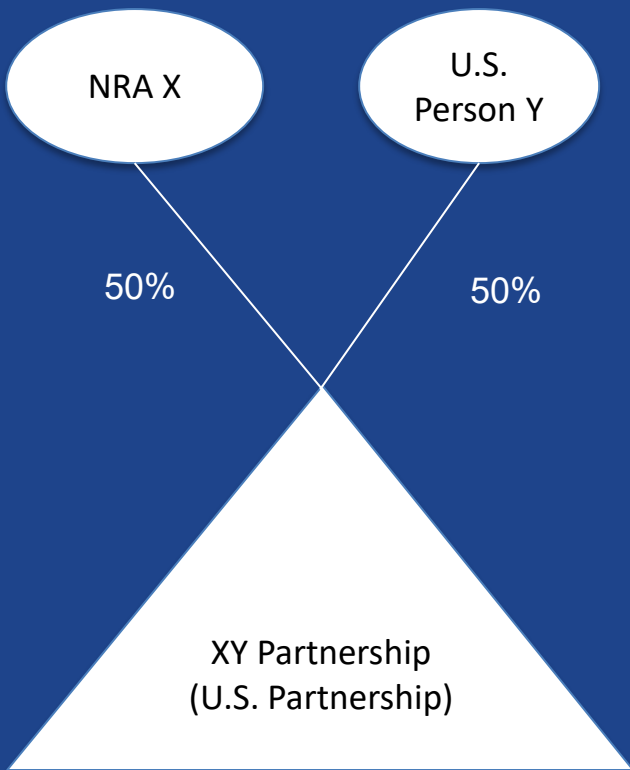
Part X Foreign Partner's Character and Source of Income and Deductions <i>(continued)</i>			
Section 3—Allocation and Apportionment Methods for Deductions			
1	Gross income		
a	Gross ECI		
b	Worldwide gross income		
2	Assets		
a	Average U.S. assets (inside basis)		
b	Worldwide assets		
3	Liabilities		
a	U.S.-booked liabilities of partnership		
b	Directly allocated partnership indebtedness		
4	Personnel		
a	Personnel of U.S. trade or business		
b	Worldwide personnel		
5	Gross receipts from sales or services by SIC code		
	(i) SIC code	(ii) ECI	(iii) Worldwide
a			
b			
6	Reserved for future use		
	(i)	(ii)	(iii)
a			
b			
7	Other allocation and apportionment key		
	(i) Key/Factor	(ii) Allocation	
a			
b			
8	Other allocation and apportionment key		
	(i) Key/Factor	(ii) Allocation	
a			
b			



Example - Facts

- XY Partnership, a U.S. partnership, (owned equally by NRA X, a Country X resident and citizen, and U.S. resident Y), had \$200,000 ordinary business gross income from conducting a U.S. business, a \$4,000 dividend from a U.S. corporation, \$100,000 of expenses related to ordinary business gross income, and a \$10,000 charitable deduction.
- XY Partnership made a guaranteed payment of \$20,000 to X, which XY Partnership allocated based on days of service in each country such that \$10,000 was allocated to Country X and \$10,000 was allocated to the U.S. X was not in the U.S. for enough days to be considered a U.S. resident. The guaranteed payment is included in the \$100,000 of expenses related to ordinary business gross income.

Example – Facts



- \$200,000 ordinary business gross income from USTB
- \$4,000 dividends from U.S. Corp
- \$100,000 expenses related to ordinary business gross income
- \$20,000 guaranteed payment to NRA X (included in expenses related to ordinary business gross income); \$10,000 allocated to Country X, \$10,000 allocated to U.S.
- \$10,000 charitable deduction

Example – Schedule K-3, Part X, Section 1

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

Section 1 – Gross Income

Description	(a) Total	(b) Partner determination	Partnership Determination				
			ECI		Non-ECI		
			(c) U.S. source	(d) Foreign source	(e) U.S. source (FDAP)	(f) U.S. source (other)	(g) Foreign source
1 Ordinary business income (gross)	100,000		100,000				
2 Gross rental real estate income							
3 Other gross rental income							
4 Guaranteed payments for services	20,000		10,000	10,000			
5 Guaranteed payments for use of capital							
6 Interest income							
7 Dividends	2,000				2,000		
8 Dividend equivalents							
9 Royalties and license fees							
10 Net short-term capital gain							
11 Net long-term capital gain							
12 Collectibles (28%) gain							
13 Unrecaptured section 1250 gain							
14 Net section 1231 gain							
15 Reserved for future use							
16 Reserved for future use							
17 Reserved for future use							
18 Reserved for future use							
19 Reserved for future use							
20 Other income (loss) not included on lines 1 through 19							
21 Gross income (sum of lines 1 through 20)	122,000		110,000	10,000	2,000		

Example – Schedule K-3, Part X, Section 2

Part X Foreign Partner's Character and Source of Income and Deductions <i>(continued)</i>						
Section 2 – Deductions, Losses, and Net Income						
Description	(a) Total	(b) Partner determination	Partnership Determination			
			ECI		Non-ECI	
			(c) U.S. source	(d) Foreign source	(e) U.S. source (FDAP)	(f) U.S. source (other)
1 Expenses related to ordinary business income (gross)	50,000		50,000			
2 Research and experimental expenses						
3 Expenses from rental real estate . .						
4 Expenses from other rental activities .						
5 Royalty and licensing expenses . . .						
6 Section 179 deduction						
7 Interest expense on U.S.-booked liabilities						
8 Interest expense directly allocable under Regulations sections 1.862-5(a)(1)(ii)(B) and 1.861-10T . .						
9 Other interest expense						
10 Section 59(e)(2) expenditures						
11 Net short-term capital loss						
12 Net long-term capital loss						
13 Collectibles loss						
14 Net section 1231 loss						
15 Other losses						
(1)						
(2)						
16 Charitable contributions	5,000		5,000			
17 Other:						
18 Other:						
19 Reserved for future use						
20 Reserved for future use						
21 Reserved for future use						
22 Reserved for future use						
23 Reserved for future use						
24 Total (sum of lines 1 through 23) . .	55,000		55,000			
25 Net income (loss) (line 21 (Section 1) minus line 24 (Section 2))	67,000					

Example – Schedule E (Form 1040), Part II

Schedule E (Form 1040) 2022

Attachment Sequence No. **13**

Page **2**

Name(s) shown on return. Do not enter name and social security number if shown on other side.

Your social security number

NRA X

XXX-XX-XXXX

Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

Part II Income or Loss From Partnerships and S Corporations

Note: If you report a loss, receive a distribution, dispose of stock, or receive a loan repayment from an S corporation, you **must** check the box in column (e) on line 28 and attach the required basis computation. If you report a loss from an at-risk activity for which **any** amount is **not** at risk, you **must** check the box in column (f) on line 28 and attach **Form 6198**. See instructions.

27 Are you reporting any loss not allowed in a prior year due to the at-risk or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section Yes No

28	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if basis computation is required	(f) Check if any amount is not at risk
A	XY Partnership- Ordinary Income	P	<input type="checkbox"/>	XX-XXXXXXX	<input type="checkbox"/>	<input type="checkbox"/>
B	XY Partnership- Guaranteed Payments	P	<input type="checkbox"/>	XX-XXXXXXX	<input type="checkbox"/>	<input type="checkbox"/>
C			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
D			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

		Passive Income and Loss		Nonpassive Income and Loss		
		(g) Passive loss allowed (attach Form 8582 if required)	(h) Passive income from Schedule K-1	(i) Nonpassive loss allowed (see Schedule K-1)	(j) Section 179 expense deduction from Form 4562	(k) Nonpassive income from Schedule K-1
A						50,000
B						10,000
C						
D						
29a	Totals					
b	Totals					
30	Add columns (h) and (k) of line 29a					30
31	Add columns (g), (i), and (j) of line 29b.					31 ()
32	Total partnership and S corporation income or (loss). Combine lines 30 and 31					32 60,000

Example – Schedule 1 (Form 1040) – Additional Income

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2023

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SCHEDULE 1 (Form 1040) <small>Department of the Treasury Internal Revenue Service</small>		Additional Income and Adjustments to Income <small>Attach to Form 1040, 1040-SR, or 1040-NR. Go to www.irs.gov/Form1040 for instructions and the latest information.</small>		<small>OMB No. 1545-0074</small> 2022 <small>Attachment Sequence No. 01</small>
Name(s) shown on Form 1040, 1040-SR, or 1040-NR			Your social security number	
NRA <input checked="" type="checkbox"/>			XXX-XX-XXXX	
Part I Additional Income				
1	Taxable refunds, credits, or offsets of state and local income taxes	1		
2a	Alimony received	2a		
b	Date of original divorce or separation agreement (see instructions):			
3	Business income or (loss). Attach Schedule C	3		
4	Other gains or (losses). Attach Form 4797	4		
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5		60,000
6	Farm income or (loss). Attach Schedule F	6		
7	Unemployment compensation	7		
8	Other income:			
a	Net operating loss	8a	()	
b	Gambling	8b		
c	Cancellation of debt	8c		
d	Foreign earned income exclusion from Form 2555	8d	()	
e	Income from Form 8853	8e		
f	Income from Form 8889	8f		
g	Alaska Permanent Fund dividends	8g		
h	Jury duty pay	8h		
i	Prizes and awards	8i		
j	Activity not engaged in for profit income	8j		
k	Stock options	8k		
l	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8l		
m	Olympic and Paralympic medals and USOC prize money (see instructions)	8m		
n	Section 951(a) inclusion (see instructions)	8n		
o	Section 951A(a) inclusion (see instructions)	8o		
p	Section 461(l) excess business loss adjustment	8p		
q	Taxable distributions from an ABL account (see instructions)	8q		
r	Scholarship and fellowship grants not reported on Form W-2	8r		
s	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	8s	()	
t	Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan	8t		
u	Wages earned while incarcerated	8u		
z	Other income. List type and amount:	8z		
9	Total other income. Add lines 8a through 8z	9		
10	Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	10		60,000

Example – Form 1040-NR, Page 1

Income Effectively Connected With U.S. Trade or Business	1a	Total amount from Form(s) W-2, box 1 (see instructions)		1a	
	b	Household employee wages not reported on Form(s) W-2		1b	
	c	Tip income not reported on line 1a (see instructions)		1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d	
	e	Taxable dependent care benefits from Form 2441, line 26		1e	
	f	Employer-provided adoption benefits from Form 8839, line 29		1f	
	g	Wages from Form 8919, line 6		1g	
	h	Other earned income (see instructions)		1h	
	i	Reserved for future use		1i	
	j	Reserved for future use		1j	
	k	Total income exempt by a treaty from Schedule OI (Form 1040-NR), item L, line 1(e)		1k	
	z	Add lines 1a through 1h		1z	
	2a	Tax-exempt interest	2a	b Taxable interest	2b
	3a	Qualified dividends	3a	b Ordinary dividends	3b
	4a	IRA distributions	4a	b Taxable amount	4b
5a	Pensions and annuities	5a	b Taxable amount	5b	
6	Reserved for future use		6		
7	Capital gain or (loss). Attach Schedule D (Form 1040) if required. If not required, check here	<input type="checkbox"/>	7		
8	Other income from Schedule 1 (Form 1040), line 10		8	60,000	
9	Add lines 1z, 2b, 3b, 4b, 5b, 7, and 8. This is your total effectively connected income		9	60,000	
10	Adjustments to income:				
a	From Schedule 1 (Form 1040), line 26		10a		
b	Reserved for future use		10b		
c	Reserved for future use		10c		
d	Enter the amount from line 10a. These are your total adjustments to income		10d		
11	Subtract line 10d from line 9. This is your adjusted gross income		11	60,000	
12	Itemized deductions (from Schedule A (Form 1040-NR)) or, for certain residents of India, standard deduction (see instructions)		12	5,000	
13a	Qualified business income deduction from Form 8995 or Form 8995-A		13a		
b	Exemptions for estates and trusts only (see instructions)		13b		
c	Add lines 13a and 13b		13c		
14	Add lines 12 and 13c		14		
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income		15	55,000	



Example – Schedule NEC

SCHEDULE NEC
(Form 1040-NR)

Tax on Income Not Effectively Connected With a U.S. Trade or Business

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service

Go to www.irs.gov/Form1040NR for instructions and the latest information.

Attach to Form 1040-NR.

2022
Attachment
Sequence No. **7B**

Name shown on Form 1040-NR

Your identifying number

NRA X

XXX-XX-XXXX

Enter **amount of income** under the appropriate rate of tax. See instructions.

Nature of Income		(a) 10%	(b) 15%	(c) 30%	(d) Other (specify)	
					%	%
1 Dividends and dividend equivalents:						
a Dividends paid by U.S. corporations	1a			2,000		
b Dividends paid by foreign corporations	1b					
c Dividend equivalent payments received with respect to section 871(m) transactions	1c					
2 Interest:						
a Mortgage	2a					
b Paid by foreign corporations	2b					
c Other	2c					
3 Industrial royalties (patents, trademarks, etc.)	3					
4 Motion picture or TV copyright royalties	4					
5 Other royalties (copyrights, recording, publishing, etc.)	5					
6 Real property income and natural resources royalties	6					
7 Pensions and annuities	7					
8 Social security benefits	8					
9 Capital gain from line 18 below	9					
10 Gambling—Residents of Canada only. Enter net income in column (c). If zero or less, enter -0-.						
a Winnings						
b Losses	10c					
11 Gambling winnings—Residents of countries other than Canada. Note: Losses not allowed	11					
12 Other (specify):	12					
13 Add lines 1a through 12 in columns (a) through (d)	13			2,000		
14 Multiply line 13 by rate of tax at top of each column	14			600		
15 Tax on income not effectively connected with a U.S. trade or business. Add columns (a) through (d) of line 14. Enter the total here and on Form 1040-NR, line 23a	15					600

Example – Form 1040-NR, Page 2

Form 1040-NR (2022) Page **2**

Tax and Credits	16	Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	16	7,723
	17	Amount from Schedule 2 (Form 1040), line 3	17	
	18	Add lines 16 and 17	18	7,723
	19	Child tax credit or credit for other dependents from Schedule 8812 (Form 1040)	19	
	20	Amount from Schedule 3 (Form 1040), line 8	20	
	21	Add lines 19 and 20	21	
	22	Subtract line 21 from line 18. If zero or less, enter -0-	22	7,723
	23a	Tax on income not effectively connected with a U.S. trade or business from Schedule NEC (Form 1040-NR), line 15	23a	600
	b	Other taxes, including self-employment tax, from Schedule 2 (Form 1040), line 21	23b	
	c	Transportation tax (see instructions)	23c	
	d	Add lines 23a through 23c	23d	600
	24	Add lines 22 and 23d. This is your total tax	24	8,323

