



# Instructions for Schedule L (Form 1118)

(Rev. December 2021)

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

## Future Developments

For the latest information about developments related to Schedule L (Form 1118) and instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1118](https://www.irs.gov/Form1118).

## General Instructions

### Purpose of Schedule

Schedule L (Form 1118) is used to identify current year foreign tax redeterminations in each separate category, the years to which they relate, and other information that satisfies the taxpayer's obligation to notify the IRS of foreign tax redeterminations related to prior years.

Use Part I to report foreign tax redeterminations that resulted in an increase in the amount of foreign taxes accrued and paid by the taxpayer or by a foreign corporation with respect to which the taxpayer computed an amount of foreign taxes deemed paid.

Use Part II to report foreign tax redeterminations that resulted in a decrease in the amount of foreign taxes paid or accrued by the taxpayer or by a foreign corporation with respect to which the taxpayer computed an amount of foreign taxes deemed paid.

Use Part III to report foreign tax redeterminations that resulted in a change to the taxpayer's income inclusions, a change in the amount of foreign taxes paid, accrued, or deemed paid, or a change in the amount of foreign tax credits claimed in any relation back year.

Use Part IV to report foreign tax redeterminations that resulted in a change in the U.S. tax liability for any relation back year or other affected tax year (for example, by reason of a change in allowable foreign tax credit carryovers).

### Who Must File

Any taxpayer that has a foreign tax redetermination under section 905(c) must complete this schedule and attach it to the income tax return for the taxable year in which the foreign tax redetermination occurs. This schedule must be submitted irrespective of whether the foreign tax

redetermination changed the taxpayer's U.S. tax liability.

**Note.** If the U.S. tax liability for any year changes by reason of the foreign tax redetermination, the taxpayer must file an amended return for the taxable year with respect to which the U.S. tax liability is adjusted, in addition to filing Schedule L for the year in which the foreign tax redetermination occurs. See [Foreign Tax Redeterminations](#) in the Instructions for Form 1118 for additional information regarding foreign tax redeterminations that result in a change in U.S. tax liability and for the related reporting requirements.

If a foreign tax redetermination does not change the amount of U.S. tax due for any taxable year, the taxpayer does not need to file an amended return. The taxpayer satisfies its reporting requirements under Regulations section 1.905-4(b)(1)(v) with respect to such foreign tax redetermination by filing a Schedule L with the return for the taxable year in which the foreign tax redetermination occurs.

### Definitions

**Foreign tax redetermination.** A foreign tax redetermination means a change in the liability for foreign income taxes including if:

- Accrued foreign taxes when paid or later adjusted differ from the amounts claimed as credits (including corrections to accrued amounts to reflect final foreign tax liability and additional payments of tax that accrue after the close of the taxable year to which the tax relates);
- Accrued foreign taxes are not paid within 24 months after the close of the tax year to which they relate; or
- Any foreign tax paid is fully or partially refunded.

**Relation back year.** Relation back year means the U.S. tax year in which the foreign taxes being redetermined were originally taken into account.

**Example.** In U.S. taxable year 1, a taxpayer took into account \$2 million of Country X foreign income taxes accrued with respect to the foreign tax year that ended within U.S. taxable year 1. In year 3, Country X assessed an additional \$1 million of taxes with respect to the foreign taxable year that ended within U.S. taxable year 1. The relation back year is U.S. taxable year 1.

**Affected tax year.** Affected tax year means any tax year for which the U.S. tax liability is changed as a result of a foreign tax redetermination. This includes tax years in which the U.S. tax liability is changed as a result of a change in a carryover of a tax attribute, such as a foreign tax credit carryover or a net operating loss carryover, from a relation back year.

**Functional currency.** Functional currency means the dollar, or in the case of a qualified business unit (QBU), the currency of the economic environment in which a significant part of such unit's activities are conducted and which is used by such unit in keeping its books and records. See section 985(b).

### Reporting Exchange Rates on Schedule L

All exchange rates must be reported using a "divide-by convention" rounded to at least four places. That is, the exchange rate must be reported in terms of the amount by which the functional currency amount must be divided in order to reflect an equivalent amount of U.S. dollars. As such, the exchange rate must be reported as the units of foreign currency that equal one U.S. dollar, rounded to at least four places. **Do not** report the exchange rate as the number of U.S. dollars that equal one unit of foreign currency.

**Note.** You must round the result to more than four places if failure to do so would materially distort the exchange rate or the equivalent amount of U.S. dollars.

### Computer Generated Schedule L

Schedule L (Form 1118) **will not** be electronically enabled for tax year 2021. However, you may file Schedule L (Form 1118) as a PDF attachment to an electronically filed Form 1118. With respect to such PDF attachments, in cases where reporting is required for more than two relation back years in Part I, Part II, and/or Part III (or for more than two relation back years or affected years in Part IV), please include additional sheets for those additional years in the same format as that shown on the applicable Schedule L Part and which includes all the information requested on that applicable Schedule L Part.

## Specific Instructions

**Important.** All information reported on Schedule L (Form 1118) must be in English. All amounts must be stated in U.S. dollars, unless otherwise specified on the Schedule.

**Line a.** On line a, enter the same separate category code as that shown on the Form 1118 to which this Schedule L relates.

**Line b.** If code 901j is entered on line a, enter on line b the same country code as that shown on the Form 1118 to which this Schedule L relates.

**Line c.** If one of the RBT codes is entered on line a, enter on line c the same country code as that shown on the Form 1118 to which this Schedule L relates.

See [Categories of Income](#) in the Instructions for Form 1118 for additional information regarding separate category and country codes.

**Line d.** Check the box on line d if an election is made under Regulations section 1.905-5(e) to account for foreign tax redeterminations with respect to pre-2018 tax years in the foreign corporation's last pooling year.

**Election to account for foreign tax redeterminations with respect to pre-2018 taxable years in the foreign corporation's last pooling year.** Under Regulations section 1.905-5(e), an irrevocable election may be made by a foreign corporation's controlling domestic shareholders to account for all foreign tax redeterminations that occur in taxable years ending on or after November 2, 2020, with respect to pre-2018 taxable years of foreign corporations as if they occurred in the foreign corporation's last taxable year beginning before January 1, 2018 (last pooling year). Check the box on line d if an election under Regulations section 1.905-5(e) has been made or is being made in the current tax year.

### Part I

**Column 1.** Enter the relation back year. See definition of [Relation back year](#), earlier. If an election under Regulations section 1.905-5(e) has been made, report all foreign tax redeterminations with respect to pre-2018 taxable years under the last pooling year.

**Columns 2a through 2d.** Enter in columns 2a and 2b the name and the EIN or reference ID number of the payor entity. If the payor entity is not a corporation, enter in columns 2c and 2d the name and the EIN or reference ID number of the domestic or foreign corporation that owns the payor entity. In columns 2b and 2d, do not enter "FOREIGNUS" or "APPLIED

FOR." Instead, if an entity does not have an EIN, the taxpayer must enter a reference ID number that uniquely identifies the payor entity or owner for which such number is requested. See [Reference ID numbers](#) in the Instructions for Form 1118 for requirements and additional details.

**Column 3.** Enter the code for the country or U.S. territory to which tax is paid using the country codes provided at [IRS.gov/CountryCodes](#).

**Columns 4 and 5.** Enter in column 4 the date(s) the additional foreign taxes were paid and enter in column 5 the foreign tax year to which such taxes relate.

**Column 6.** Enter the payor entity's income subject to tax in the foreign jurisdiction, as reported on the foreign tax return.

**Column 7.** Enter the amounts of additional tax accrued in the local currency in which the tax is payable.

**Column 8.** Enter the amounts of the additional tax denominated in the functional currency of the taxpayer's QBU (as defined under Regulations section 1.904-4(f)(3)(vii)) or foreign corporation that accrued the additional tax.

**Column 9.** Enter the exchange rate originally used to convert the local currency (in which the redetermined foreign tax was paid) to U.S. dollars. See [Reporting Exchange Rates on Schedule L](#), earlier, for additional information.

**Column 11.** Enter the U.S. dollar amount of foreign tax of each payor entity that was reported by the taxpayer on its original or amended return (not taking into account the foreign tax redetermination).

**Column 13.** Check the box if the additional foreign tax paid is a liability that the taxpayer is continuing to contest with the foreign jurisdiction.

**Column 14.** Check the box if the foreign tax redetermination changes the determination as to whether a grouping of income and related taxes of a foreign corporation qualifies for the High Tax Exception or Exclusion described in section 954(b)(4).

### Part II

**Columns 1, 2a, 2b, 2c, and 2d.** Use the instructions for Part I, columns 1, 2a, 2b, 2c, and 2d to complete the corresponding columns in Part II.

**Column 3.** Enter the code for the country or U.S. territory from which tax was refunded using the country codes provided at [IRS.gov/CountryCodes](#).

**Columns 4 and 5.** Enter in column 4 the date(s) the foreign taxes were refunded or deemed refunded and enter in column 5 the foreign tax year to which such taxes relate. If the foreign taxes are deemed refunded by reason of the section 905(c)(2) two-year rule described in the *Note* in the instructions for Column 13, in Column 4 enter the date that is 24 months after the close of the taxable year to which the foreign taxes relate.

**Column 6.** Use the instructions for Part I, column 6 to complete Part II, column 6.

**Column 7.** Enter the amount of the tax refunded or deemed refunded in the local currency in which the tax is payable.

**Column 8.** Enter the amount refunded or deemed refunded denominated in the functional currency of the taxpayer's QBU (as defined under Regulations section 1.904-4(f)(3)(vii)) or foreign corporation that paid or accrued the refunded amount.

**Columns 9 and 11.** Use the instructions for Part I, columns 9 and 11 to complete the corresponding columns in Part II.

**Column 13.** Check the box if the foreign tax redetermination is a result of the application of the section 905(c)(2) two-year rule.

**Note.** Under section 905(c)(2), if accrued foreign income taxes are not paid on or before the date that is 24 months after the close of the taxable year to which they relate, the resulting foreign tax redetermination is accounted for as if the unpaid portion of the foreign income taxes were refunded on such date. Foreign income taxes that first accrue after the date 24 months after the close of the taxable year to which such taxes relate may not be claimed as a credit or added to PTEP group taxes until paid.

**Column 14.** Use the instructions for Part I, column 14 to complete Part II, column 14.

### Part III

**Column 1.** Use the instructions for Part I, column 1 to complete Part III, column 1.

**Columns 2 and 3.** Enter in column 2 the redetermined direct section 901 and/or 903 taxes paid or accrued and enter in column 3 the direct section 901 and/or 903 taxes paid or accrued per the taxpayer's original or previously-amended return.

**Columns 4 and 5.** Enter in column 4 the redetermined amount of the taxpayer's section 951(a)(1)(A) inclusion and enter in column 5 the amount of section 951(a)(1)(A) inclusion on the taxpayer's original or previously-amended return.

**Columns 6 and 7.** Enter in column 6 the redetermined amount of foreign taxes deemed paid under section 960(a) and enter in column 7 the amount of foreign taxes deemed paid under section 960(a) as reported on the taxpayer's original or previously-amended return.

**Columns 8 and 9.** Enter in column 8 the redetermined amount of the taxpayer's section 951A inclusion and enter in column 9 the amount of section 951A inclusion reported on the taxpayer's original or previously-amended return.

**Columns 10 and 11.** Enter in column 10 the redetermined amount of foreign taxes deemed paid under section 960(d) and enter in column 11 the amount of foreign taxes deemed paid under section 960(d) on the taxpayer's original or previously-amended return.

**Columns 12 and 13.** Enter in column 12 the total amount of foreign tax credit claimed in the separate category on the taxpayer's original or previously-amended return and enter in column 13 the total amount of foreign tax credit claimed after the foreign tax redetermination. Include changes attributable to foreign tax redeterminations that affect the amount of foreign taxes deemed paid under section 902 prior to its repeal and under section 960(b) in these totals.

## Part IV

**Column 1.** Enter in column 1 the relation back year or affected year. See definitions of [Relation back year](#), and [Affected tax year](#), earlier. If an election under Regulations section 1.905-5(e) has been made, report all foreign tax

redeterminations with respect to pre-2018 taxable years under the last pooling year.

**Columns 2 through 4.** Enter in column 2 the total redetermined U.S. tax liability and enter in column 3 the total U.S. tax liability reported on the taxpayer's original or previously-amended return. In column 4, enter the difference by subtracting column 3 from column 2 for each affected tax year.

## Additional Information

For more information, see section 905(c) and Regulations sections 1.905-3, 1.905-4, and 1.905-5.