

**Schedule J
(Form 1118)**

(Rev. November 1991)

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Separate Limitation Loss Allocations and Other Adjustments Necessary to Determine Numerators of Limitation Fractions, Year-End Recharacterization Balances, and Overall Foreign Loss Account Balances

Department of the Treasury
Internal Revenue Service

For calendar year 19....., or other tax year beginning, 19..... and ending, 19.....
▶ Attach to Form 1118. For Paperwork Reduction Act Notice, see page 1 of Instructions for Form 1118.

Name

Employer identification number

Part I Adjustments to Separate Limitation Income or (Losses) in Determining Numerators of Limitation Fractions

	(i) General limitation income	(ii) Passive income	(iii) High withholding tax interest	(iv) Financial services income	(v) Shipping income	(vi) Dividends from a DISC or former DISC	(vii) Taxable income attributable to foreign trade income	(viii) Certain distributions from a FSC or former FSC	(ix) Dividends from noncontrolled section 902 corporation*
1 Separate limitation income or (loss) before adjustments. (see instructions).									
2 Allocation of current year separate limitation losses (see instructions):									
a General limitation income	()	()	()	()	()	()	()	()	()
b Passive income	()	()	()	()	()	()	()	()	()
c High withholding tax interest	()	()	()	()	()	()	()	()	()
d Financial services income	()	()	()	()	()	()	()	()	()
e Shipping income	()	()	()	()	()	()	()	()	()
f Dividends from a DISC or former DISC	()	()	()	()	()	()	()	()	()
g Taxable income attributable to foreign trade income	()	()	()	()	()	()	()	()	()
h Certain distributions from a FSC or former FSC	()	()	()	()	()	()	()	()	()
i Dividends from noncontrolled section 902 corporation*	()	()	()	()	()	()	()	()	()
3 Subtotal—Combine lines 1 through 2i.									
4 Overall foreign losses									
5 Recapture of overall foreign losses									
6 Subtotal—Subtract line 5 from line 3.									
7 Recharacterization of separate limitation income (see instructions):									
a General limitation income	()	()	()	()	()	()	()	()	()
b Passive income	()	()	()	()	()	()	()	()	()
c High withholding tax interest	()	()	()	()	()	()	()	()	()
d Financial services income	()	()	()	()	()	()	()	()	()
e Shipping income	()	()	()	()	()	()	()	()	()
f Dividends from a DISC or former DISC	()	()	()	()	()	()	()	()	()
g Taxable income attributable to foreign trade income	()	()	()	()	()	()	()	()	()
h Certain distributions from a FSC or former FSC	()	()	()	()	()	()	()	()	()
i Dividends from noncontrolled section 902 corporation*	()	()	()	()	()	()	()	()	()
8 Subtotal—Combine lines 6 through 7i.									

* Important: If you received dividends from more than one noncontrolled section 902 corporation, see last paragraph of Schedule J instructions. Cat. No. 10309U Schedule J (Form 1118) (Rev. 11-91)

	(i) General limitation income	(ii) Passive income	(iii) High withholding tax interest	(iv) Financial services income	(v) Shipping income	(vi) Dividends from a DISC or former DISC	(vii) Taxable income attributable to foreign trade income	(viii) Certain distributions from a FSC or former FSC	(ix) Dividends from noncontrolled section 902 corporation*
9 Subtotal —Enter amounts from line 8, Part I									
10 Allocation of current year U.S. source losses (see instructions)									
11 Numerator of Limitation Fraction —Subtract line 10 from line 9. Enter each result here and on line 6, Part II, of corresponding Schedule B.									

Part II Year-End Balances of Future Separate Limitation Income That Must Be Recharacterized

a General limitation income									
b Passive income									
c High withholding tax interest									
d Financial services income									
e Shipping income									
f Dividends from a DISC or former DISC									
g Taxable income attributable to foreign trade income									
h Certain distributions from a FSC or former FSC									
i Dividends from noncontrolled section 902 corporation*									

Part III Overall Foreign Loss Account Balances (section 904(f)(1))

1 Beginning balance									
2 Current year additions									
3 Current year reductions (other than recapture)	()	()	()	()	()	()	()	()	()
4 Subtotal —Combine lines 1 through 3									
5 Current year recapture									
6 Ending balance —Subtract line 5 from line 4.									

* Important: If you received dividends from more than one noncontrolled section 902 corporation, see last paragraph of Schedule J instructions.

Instructions

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

Purpose of Schedule

Part I is used to show adjustments to separate limitation income or (losses) in determining the numerator of the limitation fraction for each separate limitation. Part II is used to show the year-end balances of future separate limitation income that must be recharacterized as income of other separate limitation categories (as the result of current year or prior year separate limitation losses that were allocated to those other separate limitation categories). Part III is used to show the balances in your overall foreign loss accounts at the beginning of the tax year, any adjustments, and the balances in your overall foreign loss accounts at the end of the tax year. **Note:** Schedule J (like Schedule B, Part III and Schedule H) is completed only once (unlike all other Form 1118 schedules, which are completed for each applicable separate limitation).

Part I

The following instructions reflect the official position of the IRS (as set forth in Notice 89-3, 1989-1 C.B. 623) regarding the ordering of adjustments to each separate limitation income or (loss) in arriving at the numerator of the limitation fraction for each separate limitation. (See also Regulations section 1.904(f)-12.)

Line 1.—Enter under each of the applicable columns listed across the top of the schedule the separate limitation income or (loss) from column 12 of the corresponding Schedule A you completed for that separate limitation. (Be sure to consider on this line the possible interplay between the separate limitation losses and any net operating losses or net capital losses of which they may be a part.)

Line 2.—This allocation grid must be completed to show the “pro rata share” of each separate limitation loss to be allocated among other applicable separate limitations. To determine each “pro rata share” you must:

(a) Add all of the separate limitation loss amounts you entered across line 1 and then add all of the separate limitation income amounts you entered across line 1.

(b) If your combined separate limitation losses for the tax year **do not exceed** your combined separate limitation income for the tax year, your pro rata share of each separate limitation loss to be allocated to each category with positive taxable income is as follows:

$$\frac{\text{Separate limitation income}}{\text{Combined separate limitation income from all categories with positive taxable income}} \times \text{Separate limitation loss being allocated}$$

(c) If your combined separate limitation losses for the tax year **exceed** your combined separate limitation income for the tax year, the pro rata share of each separate limitation loss to be allocated to each separate limitation having income is as follows:

$$\frac{\text{Separate limitation loss being allocated}}{\text{Combined separate limitation losses from all categories with taxable losses}} \times \text{Separate limitation income in a given category}$$

To the extent separate limitation losses are able to be allocated, the total amounts allocated should be entered in the bold-outlined boxes as positive numbers. Each separate amount allocated to a given separate limitation should be entered across the same line under the appropriate column heading to which it was allocated. **Note:** The numbers entered across any given line should “zero out.”

Your combined separate limitation losses for the tax year in excess of your combined separate limitation income for the tax year reduces your U.S. source income (if any) for the tax year. If you have no U.S. source income for the tax year, **or** if the excess of your combined separate limitation losses for the tax year over your combined separate limitation income for the tax year exceeds your U.S. source income for the tax year, the excess is treated as a net operating loss, which may be carried over or back to other tax years in accordance with the rules under section 172.

Example 1: Corporation X has separate limitation income of \$4,000 in its “general limitation income” separate limitation (line 1, column (i)) and separate limitation income of \$1,000 in its “financial services income” separate limitation (line 1, column (iv)). In addition, the corporation has a separate limitation loss of \$2,000 in its “shipping income” separate limitation (line 1, column (v)). Corporation X completes line 2, Part I, Schedule J, as follows:

Since the corporation’s combined separate limitation losses for the tax year (\$2,000) **do not exceed** its combined separate limitation income for the tax year (\$5,000), the entire \$2,000 may be allocated to other separate limitations. Therefore, Corporation X enters a positive \$2,000 in the bold-outlined box on line 2e, column (v).

To compute the portion of the \$2,000 separate limitation loss that is allocable to the “general limitation income” separate limitation, Corporation X divides the \$4,000 of separate limitation income by \$5,000 (the combined separate limitation income from all categories with positive taxable income). The result is 80%, which is multiplied by the separate limitation loss of \$2,000. Corporation X enters the product of \$1,600 on line 2e, column (i).

To compute the portion of the \$2,000 separate limitation loss that is allocable to the “financial services income” separate limitation, Corporation X divides the \$1,000 of separate limitation income by \$5,000 (the combined separate limitation income from all categories with positive taxable income). The result is 20%, which is multiplied by the separate limitation loss of \$2,000. Corporation X enters the product of \$400 on line 2e, column (iv).

The final step is to compute the line 3 subtotals. Corporation X enters \$2,400 (\$4,000 minus \$1,600) on line 3, column (i); \$600 (\$1,000 minus \$400) on line 3, column (iv); and \$0 (negative \$2,000 plus positive \$2,000) on line 3, column (v).

Line 4.—Enter your overall foreign losses for the tax year (from line 3) to the extent they have reduced U.S. source income for the tax year.

If an overall foreign loss has reduced U.S. source income, do not complete the remainder of Part I with respect to that separate limitation. (However, you must complete Parts II and III with respect to that separate limitation to show the year-end balance in the separate limitation loss and overall foreign loss accounts.)

Line 5.—Section 904(f)(1) requires you to recapture overall foreign losses that reduced U.S. source income in prior tax years. Recapture is accomplished by treating as U.S. source income a portion of the current year separate limitation income that is of the same limitation as the loss that resulted in the prior year overall foreign loss. Recapture continues until the applicable overall foreign loss account (Part III of this schedule) is reduced to zero.

The amount of any current year separate limitation income subject to recapture is the lesser of the balance in the applicable overall foreign loss account (the applicable line 1 amount of Part III of this schedule) **or** 50% of all amounts entered across line 3, Part I of this schedule. You may make an annual, revocable election to recapture a greater portion of the balance in an overall foreign loss account. You may make the election by attaching a statement to Form 1118 indicating the percentage and dollar amount of the separate limitation income that is being treated as U.S. source income and the percentage and dollar amount of the balance (both before and after recapture) in the overall foreign loss account that is being recaptured.

Line 7.—Section 904(f)(5) states that if you allocated a separate limitation loss in a prior tax year, and you have income during the current tax year in the separate limitation from which the loss was allocated, that current year income (to the extent it has not previously been recharacterized) must be recharacterized as income of the separate limitation(s) to

which the loss was allocated in the prior year(s).

If you allocated a prior year separate limitation loss to more than one separate limitation and there is not enough current year income in the separate limitation from which the loss was allocated to recharacterize all remaining balances, then the current year income must be recharacterized as income of the other separate limitations on a pro rata basis in the following manner:

Current year income in separate limitation from which losses were previously allocated	×	Amount remaining to be recharacterized as income of a given separate limitation
		Amounts remaining to be recharacterized as income of all separate limitations

Any amount that is not recharacterized during the tax year (i.e., the excess of separate limitation losses previously allocated over current year income in that same separate limitation) must be entered into the grid at Part II of this schedule.

Note: *Recharacterization of separate limitation income does not result in recharacterizing any tax. The rules of Regulations section 1.904-6 apply on an annual basis for purposes of allocating taxes to separate limitations.*

To the extent prior year separate limitation losses are able to be recharacterized, the total amounts recharacterized should be entered into the bold-outlined boxes as negative numbers. Each prior-year separate limitation loss recharacterized should be entered across the same line under the appropriate column heading to which it was recharacterized as a positive number. **Note:** *The numbers entered across any given line should "zero out."*

Example 2.—Assume the same facts in Example 1 on page 3. Also assume that, in a subsequent tax year, Corporation X has \$1,500 of income in its "shipping income" separate limitation (on line 6, column (v), of its Schedule J).

Since there is not enough income in the "shipping income" separate limitation to recharacterize the entire \$2,000 prior-year balance remaining to be recharacterized, Corporation X will prorate the \$1,500 of income in that subsequent year as follows:

To compute the portion to be recharacterized as "general limitation income," Corporation X divides the \$1,600 remaining to be recharacterized from "shipping income" to "general limitation income" by the \$2,000 remaining to be recharacterized from "shipping income" to all separate limitations. The result is 80%, which is multiplied by the \$1,500 of "shipping income." Corporation X enters the product of \$1,200 as a positive number on line 7e, column (i).

To compute the portion to be recharacterized as "financial services income," Corporation X divides the \$400 remaining to be recharacterized from "shipping income" to "financial services income" by \$2,000. The result is 20%, which is multiplied by the \$1,500 of "shipping income." Corporation X enters the product of \$300 as a positive number on line 7e, column (iv).

Corporation X enters the \$1,500 of "shipping income" that was recharacterized in the bold-outlined box at line 7e, column (v). Note that the total amounts entered across line 7e now "zero out."

Finally, Corporation X completes the Part II recharacterization balances grid by entering \$400 (\$1,600 minus \$1,200) on line (e), column (i), and \$100 (\$400 minus \$300) on line (e), column (iv).

Line 10.—Enter the U.S. source losses you allocated to separate limitation income during the tax year. Such allocations should be performed using the following formula:

$$\text{U.S. source loss} \times \frac{\text{Income in the separate limitation category}}{\text{Combined separate limitation income}}$$

U.S. source losses that are part of a net operating or net capital loss that are carried back or forward to another tax year in accordance with section 172 or Regulations sections 1.1502-21(b) and 1.1502-79(a) are allocated first to U.S. source income for the tax year to which the losses are carried, and then to the separate limitation income for the current tax year in accordance with the rules set forth above.

U.S. source losses in excess of your separate limitation losses for a tax year must be treated as net operating losses that may be carried back or forward to other tax years in accordance with section 172.

Part II

Section 904(f)(5) states that if you allocated a separate limitation loss in a prior tax year, and you have income during the current tax year in the separate limitation from which the loss was allocated, that current year income (to the extent it has not previously been recharacterized) must be recharacterized as income of the category to which the loss was allocated in the prior year(s).

To determine the amounts to be entered into the grid: Add the current year separate limitation loss allocations (subject to Regulations section 1.904(f)-1(d) capital gains adjustments) to last year's year-end balances and subtract the amounts recharacterized during the current tax year. Enter the amounts into the grid as follows:

(1) Go down the left side of the schedule to find the separate limitation from which losses were previously allocated.

(2) Go across that line until you reach the column(s) of the separate limitation(s) to which the losses were previously allocated.

(3) Enter the amounts (as determined above) in the space where the row and column intersect.

Example 3.—Assume the same facts in Example 1 on page 3. Also assume that Corporation X does not have any remaining balances from any prior allocations of losses from its "shipping income" separate limitation to its "general limitation" or its "financial services income" separate limitations. As such, the corporation would enter \$1,600 on line (e), column (i), and \$400 on line (e), column (iv).

Part III

Overall foreign loss account

balances.—For each separate limitation, you are required (by Regulations section 1.904(f)-1(b)) to show the balances in your overall foreign loss accounts at the beginning of the tax year, any adjustments, and the balances in your overall foreign loss accounts at the end of the tax year.

Line 1.—Enter the ending balances from last year's schedule.

Lines 2, 3, and 5.—These lines are used to show any adjustments made to your overall foreign loss accounts for each separate limitation during the tax year. A list of possible additions to the accounts is shown in Regulations section 1.904(f)-1(d) and a list of possible reductions (including recapture) is shown in Regulations section 1.904(f)-1(e).

Line 5.—Enter the applicable amount(s) from line 5, Part I, Schedule J.

Line 6.—Enter the year-end balances of your overall foreign loss accounts for each separate limitation.

Computer Generated Schedule J

You may submit computer generated Schedules J if they are in conformity with the IRS version of the schedule. For example, if you received dividends from more than one noncontrolled section 902 corporation, you will have to expand the Schedule J to properly allocate the separate limitation losses among categories with positive taxable income (since dividends received from each noncontrolled section 902 corporation is a separate limitation).