

Tax Effect of the International Boycott Provisions

▶ **Attach to Form 5713.**

▶ **For Paperwork Reduction Act Notice, see page 1 of Instructions for Form 5713.**

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| Name | Taxpayer identifying number |
|------|-----------------------------|

1 Method used in computing loss of tax benefits under sections 908(a), 952(a)(3) and 995(b)(1)(F) (check one):

(a) International boycott factor from Schedule A (Form 5713). See items 2(a), 3(a), and 4(a) below ▶

(b) Identification of specifically attributable taxes and income from Schedule B (Form 5713). See items 2(b), 3(b), and 4(b) below ▶

2 Reduction of foreign tax credit (section 908(a)):

(a) International boycott factor. Complete if you checked box 1(a) above and answered "Yes," to foreign tax credit question on line 7(d), Form 5713—

(1) Foreign tax credit before adjustment (line 6, Part III, Schedule B, Form 1118 (Rev. Jan. 1984) (corporations); or line 5, Part IV, Form 1116 (1984) (individuals))

(2) International boycott factor (from Schedule A (Form 5713), line 3)

(3) Reduction of foreign tax credit (multiply line 2(a)(1) by line 2(a)(2)). Enter here and on line 7, Part III, Schedule B, Form 1118 (corporations); enter here and on line 6, Part IV, Form 1116 (individuals)

(4) Adjusted foreign tax credit (subtract line 2(a)(3) from line 2(a)(1))

(b) Specifically identifying income and taxes. Complete if you checked box 1(b) above and answered "Yes," to foreign tax credit question on line 7(d), Form 5713. Enter the amount from line 15, column (4), Schedule B (Form 5713)

Enter the appropriate part of this amount on line 3, Part II, Schedule B, of all applicable Form(s) 1118 (corporations); or on line 4, Part III, of all applicable Form(s) 1116 (individuals).

3 Denial of deferral under Subpart F (section 952(a)(3)):

(a) International boycott factor. Complete if you checked box 1(a) above and answered "Yes," to controlled foreign corporation question on line 7(b), Form 5713—

(1) Prorated share of total income of controlled foreign corporations (line 9, Schedule H, Form 5471)

(2) Prorated share of income attributable to earnings and profits of controlled foreign corporations included in income under sections 951(a)(1)(A)(ii), 951(a)(1)(A)(iii), 951(a)(1)(B), 952(a)(1), 952(a)(2), 952(a)(4), and 952(b)

(3) Subtract line 3(a)(2) from line 3(a)(1)

(4) International boycott factor (from Schedule A (Form 5713), line 3)

(5) Prorated share of Subpart F international boycott income (multiply line 3(a)(3) by line 3(a)(4)). Enter here and on line 5, Worksheet A, contained in the Instructions for Form 5471

(b) Specifically identifying taxes and income. Complete if you checked box 1(b) above and answered "Yes," to controlled foreign corporation question on line 7(b), Form 5713. Enter the amount from line 15, column (5), Schedule B (Form 5713). Also enter this amount on line 5, Worksheet A, contained in the Instructions for Form 5471

4 Denial of DISC benefits (section 995(b)(1)(F)):

(a) International boycott factor. Complete if you checked box 1(a) above and answered "Yes," to DISC question on line 7(c), Form 5713—

(1) Prorated share of section 995(b)(1)(F)(i) amount.

(2) International boycott factor (from Schedule A (Form 5713), line 3)

(3) Prorated share of DISC international boycott income (multiply line 4(a)(1) by line 4(a)(2)). (See instructions.)

(b) Specifically identifying taxes and income. Complete if you checked box 1(b) above and answered "Yes," to DISC question on line 7(c), Form 5713. Enter amount from line 15, column (6), Schedule B (Form 5713). Also enter this amount on the appropriate line of Schedule J, Form 1120-DISC

Instructions

(Section references are to the Internal Revenue Code.)

You do not need to complete Schedule C (Form 5713) for a partnership or DISC. You must complete it, however, if you are a partner or DISC shareholder.

Controlled Groups.—Unless a controlled group (described in section 993(a)(3)) files a consolidated return, each member may choose independently either to apply the international boycott factor under section 999(c)(1) or to identify specifically attributable taxes and income under section 999(c)(2). Each member must consistently use a single method to figure the loss of tax benefits.

For example, a member that chooses to use the international boycott factor must apply it to determine its loss of the section 902 indirect foreign tax credit on a dividend that another member of the controlled group paid to it, even if the other member determines its own loss of tax benefits by identifying specifically attributable taxes and income.

Thus, a person who applies the international boycott factor to one operation must apply the factor to all that tax year's operations under section 908(a), 952(a)(3), or 995(b)(1)(F).

A person who identifies specifically attributable taxes and income under section 999(c)(2) must use that method for all that tax year's operations under section 908(a), 952(a)(3), or 995(b)(1)(F).

A DISC whose tax year differs from the common taxable year of the controlled group of which it is a member does not need to amend its return to show on Schedule J (Form 1120-DISC) the amount of DISC benefits lost because of boycott participation. Since the DISC benefits are lost at the shareholder level, the shareholder must include in income the prorated share of income attributable to boycott operations shown on line 4(a)(3).