Instructions for Form 1116

Foreign Tax Credit
(Individual, Estate, or Trust)

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

What's New

Foreign oil and gas income. Beginning in 2009, taxes on foreign oil related income will be subject to the same rules that apply to taxes on foreign oil and gas extraction income in determining the amount allowed as a foreign tax credit. For more information, see Taxes on combined foreign oil and gas income under Line 12 on page 15.

General Instructions

Election To Claim the Foreign Tax Credit Without Filing Form 1116

You may be able to claim the foreign tax credit without filing Form 1116. By making this election, the foreign tax credit limitation (lines 14 through 20 of the form) will not apply to you. This election is available only if you meet all of the following conditions:

• All of your foreign source gross income was "passive category income" (which includes most interest and dividends) (see page 3). However, for this purpose, passive income also includes (a) income subject to the special rule for high-taxed income described on page 3, and (b) certain export financing interest.
• All the income and any foreign taxes paid on it were reported to you on a qualified payee statement. Qualified payee statements include Form 1099-DIV, Form 1099-INT, Schedule K-1 (Form 1041), Schedule K-1 (Form 1065), Schedule K-1 (Form 1120S), or similar substitute statements.
• Your total creditable foreign taxes are not more than $300 ($600 if married filing a joint return).

This election is not available to estates or trusts.

If you make this election:
• You cannot carry over to any other year any foreign taxes paid or accrued in a tax year to which the election applies (but carryovers to and from other years are unaffected). See the instructions for line 10 on page 15.
• You are still required to take into account the general rules for determining whether a tax is creditable. See Foreign Taxes Eligible for a Credit and Foreign Taxes Not Eligible for a Credit on page 2.
• You are still required to reduce the taxes available for credit by any amount you would have entered on line 12 of Form 1116. See the instructions for Line 12 on page 15.

To make the election, just enter the foreign tax credit line of your tax return (for example, Form 1040, line 47) the smaller of (a) your total foreign tax or (b) your regular tax (for example, Form 1040, line 44).

Purpose of Form

Who should file. File Form 1116 if the election above does not apply and:
• You are an individual, estate, or trust, and
• You paid or accrued certain foreign taxes to a foreign country or U.S. possession.

See Foreign Taxes Eligible for a Credit on page 2 to determine if the taxes you paid or accrued qualify for the credit.

Do not use Form 1116 to figure a credit for taxes paid to the U.S. Virgin Islands. Instead, use Form 8869. Allocation of Individual Income Tax to the U.S. Virgin Islands.

Nonresident Alien. If you are a nonresident alien, you generally cannot take the credit. However, you may be able to take the credit if:
• You were a resident of Puerto Rico during your entire tax year;
• You pay or accrue tax to a foreign country of U.S. possession or income from foreign sources that is effectively connected with a trade or business in the United States. But if you must pay tax to a foreign country or U.S. possession on income from U.S. sources only because you are a citizen or a resident of that country or U.S. possession, do not use that tax in figuring the amount of your credit.

See section 906 for more information on the foreign tax credit allowed to a nonresident alien individual.

Credit or Deduction

Instead of claiming a credit for eligible foreign taxes, you can choose to deduct foreign income taxes. Form 1040 filers choosing to do so would deduct foreign income taxes on Schedule A (Form 1040), Itemized Deductions. Generally, if you take the credit for any eligible foreign taxes, you cannot take any part of that year's foreign taxes as a deduction. However, even if you take the credit for eligible foreign taxes for the year, you can take a deduction for:
• Foreign taxes not allowed as a credit because of boycott provisions.
• Taxes paid to certain foreign countries for which a credit has been denied, as described in item (2) under Foreign Taxes Not Eligible for a Credit on page 2.
• Taxes on income or gain that are not creditable because you do not meet the holding period requirement, as described in item (3) or (5) under Foreign Taxes Not Eligible for a Credit on page 2.
• Certain taxes paid on income or gain that are not creditable because you must have to make related payments, as described in item (4) or (6) under Foreign Taxes Not Eligible for a Credit on page 2.

Tax Help

For more information about, or assistance with figuring, the foreign tax credit, the following IRS resources are available.

IRS Contacts
• Call 1-800-829-1040 (in U.S. and Puerto Rico).
• Call 215-516-2000 (overseas) (not toll free).
• Contact IRS offices at U.S. Embassies in Beijing, London, Paris, or the U.S. consulate in Frankfurt.
• Write to Internal Revenue Service, International Section, P.O. Box 920, Bensalem, PA 19020-8518.

Publications
• Pub. 514, Foreign Tax Credit for Individuals.
• Pub. 570, Tax Guide for Individuals With Income From U.S. Possessions.
• Pub. 575, Pension and Annuity Income.
Foreign Taxes Eligible for a Credit

You can take a credit for income, war profits, and excess profits taxes paid or accrued by a foreign country or U.S. possession, or any political subdivision (for example, city, county, agency, or instrumentality of the country or possession). This includes taxes paid or accrued in lieu of a foreign property tax, or on a possession income, war profits, or excess profits, or on dividends. To qualify, the taxes must be paid by or accrued to a foreign country in connection with the purchase of or sale of oil or gas extracted in that country if you do not have an economic interest in the oil or gas, and the purchase price or sales price is different from the fair market value of the oil or gas at the time of the purchase or sale.

Foreign Taxes Not Eligible for a Credit

1. Taxes paid to a foreign country that you do not legally owe, including amounts eligible for refund by the foreign country. If you do not exercise your available remedies to reduce the amount of foreign tax to what you legally owe, a credit for the excess amount is not allowed. For example, Country X withholds $25 of foreign tax from payment made to you. Under the income tax treaty between the United States and Country X, you owe $15 of foreign tax. You do not claim a refund from Country X for the other $10. Only $15 is eligible for the foreign tax credit (whether or not you apply for a refund).

2. Taxes imposed by and paid to certain foreign countries. These countries are those designated by the Secretary of State as countries that repeatedly provide support for acts of international terrorism, or countries whose governments are not recognized by the United States. Pub. 514 contains a list of these countries.

3. Foreign taxes withheld on a dividend from a corporation, if you have not held the stock for at least 16 days within the 31-day period that begins 15 days before the ex-dividend date. This required holding period is greater for preferred stock. Inflationary currency. Inflationary currency means the currency of a country in which there is cumulative inflation during the 36 calendar months immediately preceding the last day of the calendar year of at least 30%, as determined by reference to the consumer price index of the country listed in the monthly issues of International Financial Statistics, or a successor publication, of the International Monetary Fund.

Election to use exchange rate on date paid

If you have accrued foreign taxes that you are otherwise required to convert using the average exchange rate, you can elect to use the exchange rate in effect on the date the foreign taxes are paid if the taxes are paid in a foreign currency. If any of the taxes accrued to you must be paid, you must translate them into U.S. dollars using the exchange rate on the last day of the U.S. tax year to which those taxes relate. Once made, the election applies to the tax year in which and all subsequent tax years unless revoked with the consent of the IRS. It must be made by the due date (including extensions) for filing the tax return for the first tax year to which the election applies. You make the election by attaching a statement to the applicable tax return.

Special rules for a qualified business unit

If you have a qualified business unit, see Pub. 514 for special rules for converting foreign income and taxes into U.S. Dollars. You may have a qualified business unit if you own and operate a business or are self-employed in a foreign country.

Foreign Tax Credit Redeterminations

If you claim a credit for foreign taxes paid, and you receive a refund of all or part of the taxes you claimed as a credit, you must file an amended return reducing the taxes credited by the amount refunded. If you claim the foreign tax credit based on foreign taxes accrued instead of foreign taxes paid, the credit must be redetermined in any of the following situations:

1. You accrued taxes when paid differ from the amount you claimed as a credit.

2. You do not pay the accrued taxes within 2 years after the close of the tax year to which they relate. If this applies to you, you must reduce the credit previously claimed by the amount of the refund you will not be allowed a credit for the unpaid taxes until you pay them. When you pay the accrued taxes, you must translate them into U.S. dollars using the exchange rate as of the date they were accrued. You must file an amended return reducing the credit for the U.S. dollars using the exchange rate as of the date they were accrued. You must file an amended return reducing the credit for the payment of the tax. However, accrued but unpaid foreign taxes denominated in inflationary currency must be translated into U.S. dollars using the exchange rate on the last day of the U.S. tax year to which those taxes relate.

Inflationary currency. Inflationary currency means the currency of a country in which there is cumulative inflation during the 36 calendar months immediately preceding the last day of the calendar year of at least 30%, as determined by reference to the consumer price index of the country listed in the monthly issues of International Financial Statistics, or a successor publication, of the International Monetary Fund.

Instructions for Form 1116 (2009)

-2-
between the date of accrual and the date of payment. However, no redetermination is required if the change in foreign tax liability for each foreign country is less than the smaller of:

| a. $10,000, or |
| b. 2% of the total dollar amount of the foreign tax initially accrued for that foreign country for the U.S. tax year. |

In this case, you must adjust your U.S. tax in the tax year in which the accrued foreign taxes are paid.

If any of the above situations occurs after you file your return, you must file Form 1040X, Amended U.S. Individual Income Tax Return, or other amended return, to notify the IRS of your U.S. tax for the year or years affected can be redetermined. Complete and attach to Form 1040X (or other amended return) a revised Form 1116 for each tax year(s) affected and a statement that contains information sufficient for the IRS to redetermine your U.S. tax liability. See Pub. 514 for more information.

Amended returns for all years affected by a foreign tax redetermination that result in U.S. tax deficiencies and that occurred in 2005, 2006, and 2007, must be filed no later than the due date of your 2009 tax return (including extensions).

If you do not notify the IRS of a foreign tax refund or change in the dollar amount of foreign taxes paid or accrued, you will have to pay a penalty unless you can show that the failure to notify the IRS is due to reasonable cause and not due to willful neglect.

Income From Sources Outside the United States

Foreign source income generally includes, but is not limited to, the following:

- Compensation for services performed outside the United States.
- Interest income from a lender located outside the United States.
- Dividends from a corporation incorporated outside the United States.
- Gain on the sale of nondepreciable property, maintained as a tax home outside the United States, if you paid a tax of at least 10% of the gain to a foreign country.

Foreign source income generally does not include gain realized on the sale or exchange of property held primarily for sale to customers in the ordinary course of a trade or business; gain from commodities hedging transactions; and active business gains or losses of partners, owners, shareholders, or handlers of commodities. It may also not include dividends, interest, rents, or royalties received from a controlled foreign corporation (CFC) in which you are a U.S. shareholder who owns 10% or more of the total voting power of all classes of the corporation’s stock.

Passive income. Passive income generally includes dividends, interest, royalties, rents, annuities, gain from the sale of property that produces such income or of non-income-producing investment property, and gains from foreign currency or commodities transactions. Capital gains not related to the active conduct of a trade or business are generally passive income.

Passive income does not include export financing interest, active business rents and royalties, or high-taxed income (see High-taxed income on this page).

Specified passive category income. Dividends from a DISC (domestic international sales corporation) or former DISC to the extent they are treated as foreign source income, and certain distributions from a former FSC (foreign sales corporation) are specified passive category income.

General category income. General category income is income that is not passive category income or income described in categories a, d, and e, discussed later. General category income may include:

- Wages, salary, and overseas allowances of an individual as an employee.
- Income earned in the active conduct of a trade or business.
- Gains from the sale of inventory or depreciable property used in a trade or business.
- Financial services income. In general, financial services income is treated as general category income if it is derived by a financial services entity.

Financial services income entity. For any financial services income entity, you are a financial services entity if you are predominantly engaged in the active conduct of a banking, insurance, financing, or similar business for any taxable year. Financial services income of a financial services entity generally includes income derived in the active conduct of a banking, financing, insurance or similar business. Financial services income of a financial services entity also includes passive income and certain incidental income.

If you qualify as a financial services entity because you treat certain items of income as active financing income income derived in the active conduct of a banking, financing, insurance or similar business. Financial services income of a financial services entity also includes passive income and certain incidental income.

Taxed income. In some cases, passive income and taxes must be treated by the foreign and U.S. tax authorities. Generally, passive income and taxes must be treated as general category income if the foreign taxes you paid on the income (after allocation of expenses) exceed the highest U.S. tax that can be imposed on the income. However, passive income that is financial services income is treated as general category income regardless of whether it is high-taxed income. See Pub. 514 and Regulations sections 1.904-4(c) and 1.904-5 for more information.

c. Section 901(j) Income

No credit is allowed for foreign taxes imposed by and paid or accrued to certain sanctioned countries. However, income derived from each such country is subject to a separate foreign tax credit limitation. Therefore, you must use a separate Form 1116 for income derived from each such country.

These countries are those designated by the Secretary of State as countries that repeatedly provide support for acts of international terrorism, countries with which the United States does not have diplomatic relations, or countries whose governments are not recognized by the United States. Pub. 514 contains a list of these countries.

If you paid taxes to a country that ceased to be a sanctioned country during the tax year, see Pub. 514 for details on how to figure the foreign tax credit for the period that begins after the end of the sanctions.

Presidential waiver. The President of the United States has the authority to waive the denial of the credit with respect to a sanctioned country if (a) it is in the national interest of the United States and (b) the President reports to the Congress, not less than 30 days before the waiver is granted, the intention to grant such a waiver and the reason for such waiver.
d. Certain Income Re-sourced by Treaty
If a sourcing rule in an applicable income tax treaty treats any of the specific types of income described below as foreign source, and you elect to apply the treaty, the income will be treated as foreign source.
• Certain gains (section 865(h)), or
• Certain income from a U.S.-owned foreign corporation (section 904(h)(10)). See Regulations section 1.904-5(m)(7) for an example.

Important. You must compute a separate foreign tax credit limitation for each amount of re-sourced income from a treaty country. Add the amounts from line 21 of each separate Form 1116 and enter the total on line 24 of your summary Form 1116 (that is, the Form 1116 for which you are completing Part IV). In addition, you may be required to file Form 8833, Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b) for the re-sourced income.

Other types of income that are re-sourced under the terms of an income tax treaty (for example, compensation for services performed in the United States by a U.S. citizen resident in a foreign country) are not subject to a separate foreign tax credit limitation. However, the specific treaty may provide for other restrictions on the amount of income that is re-sourced or the amount of credit that is allowed with respect to foreign tax paid on re-sourced income.

See, for example, article 24, paragraph 1, of the treaty between France and the United States.

e. Lump-Sum Distributions
You can take a foreign tax credit for taxes you paid or accrued on a foreign source lump-sum distribution from a pension plan. Special formulas may be used to figure a separate tax on a qualified lump-sum distribution for the year in which the distribution is received. See Pub. 575 for more information.

If you are able to elect, and do elect, to figure your U.S. tax on a lump-sum distribution using Form 4972, Tax on Lump-Sum Distributions, a separate foreign tax credit limitation applies. Use a separate Form 1116. On this separate Form 1116, check box e above Part I. Skip Part I. Complete Part II showing only foreign taxes that are attributable to the lump-sum distribution. Then, complete the Worksheet for Lump-Sum Distributions on this page to figure the amounts to enter in Part III.

Special Rules
Look-Through Rules
Certain income received or accrued by you as a 10%-or-more U.S. shareholder in a controlled foreign corporation (CFC) is treated as income in one of the separate categories listed under Categories of Income starting on page 3. For example, Subpart F inclusions, dividends, interest, rents, and royalties from a CFC are treated as separate category income to the extent they are attributable to separate category income of the CFC. See Regulations section 1.904-5 for more information.

Reporting Foreign Tax Information
From Partnerships and S Corporations
If you received a 2009 Schedule K-1 from a partnership or S corporation that includes foreign tax information, use the rules below to report that information on Form 1116.

General Information for Partners and S Corporation Shareholders
Less-than-10% limited partners and certain less-than-10% S corporation shareholders on line 11. If you are a limited partner or an S corporation shareholder who does not actively participate in the management of the partnership or S corporation, you generally may assign to you as a 10%-or-more U.S. shareholder of a CFC your own no less than-10% interest (by value) in the partnership or S corporation. See Regulations section 1.904-5(3)(2)(f) for more details and exceptions.

This rule takes precedence over the income categories rules outlined in the instructions on page 5 for line 16, codes C and D–F, (or line 14, codes C and D–F) of the Schedule K-1, and the apportionment of deductions rules outlined in the instructions on page 5 for line 16, codes H and I–K, (or line 14 codes H and I–K) of the Schedule K-1.

Reporting amounts on Form 1116, include amounts reported to you on Schedule K-1 with any other amounts reportable on Form 1116 using:
• A separate Form 1116 for each category of income,
• A separate column in Part I and a separate line in Part II for each country or possession.

Explanation of Certain Line Items on Schedule K-1

In each instance that follows, the first line reference is to the Schedule K-1 for Form 1065, and the second line reference is to the Schedule K-1 for Form 1120S. (The Schedule K-1 for Form 1120S includes all foreign tax information in box 9 or in an attachment for box 9.)

Line 16, code B, or line 14, code B—Gross income from all sources. Combine your distributive share of "gross income from all sources" with all of your other gross income and enter the total on line 3e. "Gross income from all sources" is a constant amount (that is, you will enter the same amount on line 3e of all Forms 1116 that you file).

Line 16, code C, or line 14, code C—Gross income sourced at partner or shareholder level. This line includes income from the sale of eligible personal or intangible property other than inventory, depreciable property, and certain intangible property). See Pub. 514 for details.

Although all income reported to you on this line of the Schedule K-1 has been apportioned to separate categories of income, you
must nevertheless first determine (using the rules below) whether the income on this line is U.S. source income or foreign source income. Then, enter only foreign source income in Part I of each of the applicable Forms 1116 (that is, those Forms 1116 for each category of income you received from the partnership or S corporation).

Use the following rules to source the income reported to you on this line of the Schedule K-1. If you are a U.S. resident (as defined below), the income is U.S. source income. If you are a nonresident (as defined below), the income is foreign source income.

U.S. resident. A U.S. resident is a U.S. citizen or resident alien who does not have a tax home in a foreign country or a nonresident alien who has a tax home in the United States.

Tax home. Generally, your tax home is the general area of your principal place of business, employment, or post of duty, regardless of where you maintain your family home. Your tax home is the place where you are permanently or indefinitely engaged to work, a place of business that is part of the nature of your work, or your principal place of work.

Nonresident. A nonresident is any person who is not a U.S. resident. U.S. citizens and resident aliens with a foreign tax home will not be treated as nonresidents for a sale of eligible personal property unless you incurred a foreign tax of 10% or more was paid or accrued or income on the gain on the sale (or, in the case of a loss, foreign tax, or more) would have been paid had the sale resulted in gain.

Note. To help you with these rules, the partnership or S corporation has specifically identified the following:

• Gains on the sale of eligible personal property for which a foreign tax of 10% or more was paid or accrued.

• Losses on the sale of eligible personal property for which a foreign tax of 10% or more would have been paid had the sale resulted in a gain.

Include foreign source income in Part I of the applicable Form 1116 (that is, the Form 1116 for each category of income that was provided to you for this line of the Schedule K-1). Do not include in Part I of Form 1116 income that you determined (using the above rules) to be U.S. source income.

If the partnership or S corporation has specifically identified any capital gains or losses or unreaptured section 1250 gain on this line (Schedule K-1, line 16, code C, or line 14, code C) and you have determined that those gains or losses are foreign source, see Foreign Qualified Dividends and Capital Gains (Losses) on this page before entering an amount in Part I of Form 1116.

Line 16, codes C, D, E, and F, or line 14, codes D, E, and F—Foreign gross income sourced at partnership or S corporation level. Income reported on this line has already been sourced to you in the partnership or S corporation. The partnership or S corporation has reported this income to you and by category of income. Include these amounts in Part I of each of the applicable Forms 1116 (that is, those Forms 1116 for each category of income you received).

TIP You should disregard any information shown on your Schedule K-1 pertaining to gross income attributable to a foreign branch. It is intended only for corporate partners preparing Form 1116.

Line 16, codes G, or line 14, code G—Interest expense. See the instructions for line 4b on page 14 to allocate and apportion the interest expense shown on this line of Schedule K-1. In applying those instructions, take into account your distributive share of the partnership’s or S corporation’s gross income (for purposes of the $5,000 threshold) or your pro rata share of the partnership’s or S corporation’s assets. However, if you were a limited partner or an S corporation shareholder who did not actively participate in the management of the S corporation and you and your interest in the partnership or S corporation was less than 10%, see the next paragraph. Include interest expense that you allocate to foreign source income on line 4b of the applicable Form 1116. Do not enter in Part I of Form 1116 any interest expense that you allocate to U.S. source income.

Less-than-10% limited partners and shareholders—Less-than-10% S corporation shareholders. If you are a limited partner or an S corporation shareholder (who does not actively participate in the management of the S corporation) and you own (directly or indirectly) a less-than-10% interest (by income) in the partnership or S corporation, you may generally allocate your distributive share of interest expense from that partnership or S corporation to foreign or U.S. source income based on your distributive share of the gross foreign or U.S. source income of that partnership or S corporation. The interest expense you allocate to foreign source income generally may be apportioned exclusively to the foreign source category. However, see Temporary Regulations section 1.861-9T(e)(4) for exceptions.

Line 16, code H, or line 14, code H—Other expenses. This line includes expenses (other than interest expense) of the partnership or S corporation that must be allocated and apportioned at the partner or shareholder level (for example, research and experimental expenses).

Combine your distributive share of these expenses with all of your other like expenses, if any, and then allocate and apportion them using the applicable rules (for example, for research and experimental expenses, the rules under Regulations section 1.861-17(f)).

Include expenses that you allocate to foreign source income on line 2 of the applicable Form 1116. Expenses that you allocate to U.S. source income should not be entered on any line of Part I of Form 1116.

Line 16, codes J, K, and L, or line 14, codes J, K, and L—Deductions allocated and apportioned at partnership or S corporation level to foreign source income. The partnership or S corporation has already allocated these expenses to foreign source income and has reported them to you by country and by category of income. Include these amounts on line 2 of each of the applicable Forms 1116 (that is, those Forms 1116 for each category of income you received).

TIP You should disregard any information shown on your Schedule K-1 pertaining to definitely allocable deductions attributable to a foreign branch. It is intended only for corporate partners preparing Form 1116.

Line 16, codes M, and L, or line 14, codes M and L—Total foreign taxes. The partnership or S corporation has already allocated and apportioned total foreign taxes for you and has reported them to you by country and by category of income. Include these amounts on line 2 of each of the applicable Forms 1116 (that is, those Forms 1116 for each category of income you received).

Line 16, code N, or line 14, code N—Reduction in taxes available for credit. The partnership or S corporation has already apportioned the reduction in taxes available for credit and has reported it to you by country and by category of income. Include these amounts on line 12 of each of the applicable Forms 1116 (that is, those Forms 1116 for each category of income you received).

Foreign Qualified Dividends and Capital Gains (Losses) If you have foreign source qualified dividends or foreign source capital gains (including any foreign source capital gain distributions) or losses, you may be required to make certain adjustments to those amounts before taking them into account on line 1a (gross income) or line 5 (losses).

If you completed the Qualified Dividends and Capital Gains Tax Worksheet in the instructions for your tax return, and are not required to file Schedule D, see Qualified Dividends and Capital Gain Tax Worksheet (Individuals), to determine the adjustments you may be required to make. If you completed the Qualified Dividends and Capital Gains Tax Worksheet, the instructions for Form 1041, see Qualified Dividends and Capital Gains Tax Worksheet (Estates and Trusts), later, to determine the adjustments you may be required to make. You can elect not to make the adjustments to your qualified dividends and capital gains if you qualify for the adjustment exception. See Adjustment exception under Qualified Dividends and Capital Gain Tax Worksheet.
If you completed the Qualified Dividends and Capital Gain Tax Worksheet in your tax return instructions and you do not have to file Schedule D, you may have to adjust the amount of your foreign source qualified dividends and capital gain distributions if it is less than line 17 of that worksheet.

Adjustment exception for Form 1040 filers. You qualify for the adjustment exception if you meet both of the following requirements:

1. Line 5 of the Qualified Dividends and Capital Gain Tax Worksheet is greater than zero.
2. Line 14 of the Qualified Dividends and Capital Gain Tax Worksheet is less than line 15 of that worksheet.

Adjustment exception. If you qualify for the adjustment exception, you can elect to adjust your foreign source qualified dividends and capital gain distributions.

You make this election by not adjusting these items. If you make this election, you must elect not to adjust any of your foreign source qualified dividends or capital gain distributions.

Adjustment exception for Form 1040NR filers. You qualify for the adjustment exception if you meet both of the following requirements:

1. Line 5 of the Qualified Dividends and Capital Gain Tax Worksheet is greater than zero.
2. Line 14 of the Qualified Dividends and Capital Gain Tax Worksheet is less than line 15 of that worksheet.

Adjustment exception. If you qualify for the adjustment exception, you can elect to adjust your foreign source qualified dividends and capital gain distributions.

You make this election by not adjusting these items. If you make this election, you must elect not to adjust any of your foreign source qualified dividends or capital gain distributions.
The type and rule above prints on all proofs including departmental reproduction proofs. MUST be removed before printing.

Instructions for Form 1116 (2009) 6:36 - 1-DEC-2009

a. $208,850 if married filing jointly or qualifying widow(er)
   b. $104,425 if married filing separately
   c. $190,200 if head of household
   d. $190,200 if single, or
   e. $190,200 if head of household.

2. Line 5 of the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040NR instructions is less than or equal to:
   a. $209,950 if you checked filing status box 6,
   b. $104,425 if you checked filing status box 3, 4, or 5,
   c. $171,550 if you checked filing status box 1 or 2.

3. Line 23 of Schedule D (Form 1041) or line 17 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions is less than or equal to $8,200.

Note. Your foreign source net capital gain is the excess of your net long-term capital gain from foreign sources over your net short-term capital loss from foreign sources. Ignore any long-term capital gains you elected to include on Form 4952, line 4g, in determining your foreign source net capital gain. Ignore any qualified dividends you elected to include on Form 4952, line 4g, in determining the amount of your foreign source qualified dividends.

How to make adjustment. To adjust your foreign source qualified dividends, multiply your foreign source qualified dividends in each separate category by 0.4286 if the foreign source qualified dividends are taxed at a rate of 15%. Include the results on line 1a of the applicable Form 1116.

You adjust your foreign source qualified dividends taxed at the 0% rate by not including them on line 1a. Amounts taxed at the 0% rate are on the following line of the worksheet or schedule you completed.

1. Line 10 of the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040NR instructions.
2. Line 8 of the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040NR instructions.
4. Line 26 of Schedule D (Form 1041).

Do not adjust the amount of any foreign source qualified dividends that you elected to include on Form 4952, line 4g.

No adjustment required. If you are not required to adjust your foreign source qualified dividends (or you qualify for the adjustment exception and elect to adjust these dividends), include on line 1a of Form 1116 the full amount of foreign source qualified dividends without adjustment.

Adjustments to foreign capital gains and losses. You must use Worksheet A, Worksheet B, or the instructions for Capital Gains and Losses in Pub. 514 to determine the adjustments you must make to your foreign capital gains or losses. Read the instructions below to see if you qualify to use Worksheet A or Worksheet B. If you do not qualify to use Worksheet A or Worksheet B, use the instructions for Capital Gains and Losses in Pub. 514 to determine the adjustments you must make.

Before you complete Worksheet A or Worksheet B, you must include on Form 4952, line 4g, the gain you elected to include on Form 4952, line 4g, in determining the amount of your foreign source qualified dividends.

Worksheet A. You can use Worksheet A on page 8 to determine the adjustments you must make to your foreign source capital gains or losses if you have foreign source qualified dividends or losses in no more than two separate categories and any of the following apply:

• You qualify for the adjustment exception discussed earlier under Adjustments to foreign qualified dividends under Schedule D Filers and you did not make any adjustments to your foreign qualified dividends (if any).
• Line 15 or 16 of Schedule D (Form 1040) (line 14a or 15 of Schedule D (Form 1041)) is zero or a loss.
• You figured your tax using the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040 instructions and (a) line 3 of the worksheet minus the amount on Form 4952, line 4e, that you elected to include on Form 4952, line 4g, is zero or less, (b) line 7 of that worksheet is equal to or greater than line 17.
• You figured your tax using the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040NR instructions and (a) line 3 of that worksheet is zero, (b) line 6 of that worksheet is zero, or (c) line 14 of that worksheet is equal to or greater than line 15.

Worksheet B. If you do not qualify to use Worksheet A, use Worksheet B on page 9 to determine the adjustments you must make to your foreign source capital gains or losses if:

• You have foreign source capital gains or losses in no more than two separate categories.
• You did not complete the Unrecaptured Section 1250 Gain Worksheet or the 28% Rate Gain Worksheet in the Schedule D instructions, and
• You do not have any capital gains taxed at a rate of 0%.

Complete Worksheet B only once, even if you have capital gains or losses in no more than two separate categories. Keep the completed Worksheet B for your records. Do not file Worksheet B with your tax return.

Worksheet D. The Worksheet D Tax Worksheet in the Schedule D (Form 1040) instructions is less than or equal to $3,000 of ordinary income.

Complete Worksheet D only once, even if you have capital gains or losses in no more than two separate categories. Keep the completed Worksheet D for your records. Do not file Worksheet D with your tax return.
### Worksheet A

(See instructions below)

<table>
<thead>
<tr>
<th>Category #1</th>
<th>Category #2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specifying</td>
<td></td>
</tr>
</tbody>
</table>

1. Separate category capital gain or (loss) .......................................................... 1. __________________________ 1. __________________________

2. Foreign source capital gain net income ............................................................ 2. __________________________

3. Capital gain net income .................................................................................................. 3. __________________________

4. Total U.S. capital loss adjustment ............................................................................ 4. __________________________

5. Adjusted separate category capital gain ................................................................. 5. __________________________

6. U.S. capital loss adjustment factor. (For each separate category, divide line 1 by line 2 and round off the result to at least four decimal places.) .......................................................... 6. __________________________

7. U.S. capital loss adjustment. (For each separate category, multiply line 4 by line 6.) .......................................................... 7. __________________________

8. Adjusted separate category capital gain. (For each separate category, subtract line 7 from line 1. Enter the result here and include the result on line 1a of the applicable Form 1116.) .......................................................... 8. __________________________

### Instructions for Worksheet A

**Line 1.** For each separate category for which you have foreign source capital gains or losses, combine your foreign source capital gains and losses in that separate category and enter the result on line 1. Show a loss on line 1 of this worksheet as a negative amount and include the loss on line 5 of the Form 1116 you are filing for that separate category.

**Line 2.** Combine the amounts entered on line 1. If the result is zero or less, do not complete the rest of the worksheet. Instead, for each separate category with a positive amount on line 1 of this worksheet, include that positive amount on line 1a of the Form 1116 you are filing for that separate category.

**Line 3.** Enter the amount from line 16 of Schedule D (Form 1040), less the portion of net capital gain you included on Form 4952, line 4g. If the result is zero or less, enter -0-.

**Estates and trusts:** Enter the amount from line 15 of Schedule D (Form 1041), less any amount shown on line 21 of that Schedule D. If the result is zero or less, enter -0-.

**Line 4.** Subtract line 3 from line 2 and enter the result on line 4. If the result is zero or less, do not complete the rest of the worksheet. Instead, for each separate category with a positive amount on line 1 of this worksheet, include that positive amount on line 1a of the Form 1116 you are filing for that separate category.

**Line 5.**
- If both separate categories have a positive amount on line 1, skip line 5 and go to line 6.
- If only one separate category has a positive amount on line 1, subtract line 4 from that positive amount. Enter the result here and include the result on line 1a of the Form 1116 you are filing for that separate category. Skip lines 6–8 of this worksheet.
Worksheet B  (See instructions below)

<table>
<thead>
<tr>
<th>Category #1</th>
<th>Category #2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specify</td>
<td>Specify</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>(1) Short-Term</th>
<th>(2) Long-Term (15%)</th>
<th>(3) Short-Term</th>
<th>(4) Long-Term (15%)</th>
<th>(5) Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Separate category rate group capital gain or (loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. U.S. capital loss adjustment amount</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Subtotal (subtract line 2 from line 1 gain amounts)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Net U.S. long-term capital loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. U.S. long-term capital loss adjustment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Excess net U.S. long-term capital loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Long-term capital gain (or adjustment amount)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Limitation percentage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Long-term limitation amounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Adjustment amounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Rate differential adjustments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Long-term gains</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Rate differential adjustment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Long-term gain</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Adjusted separate category capital gains and losses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Instructions for Worksheet B

Line 1. For each separate category:
• Combine your foreign source short-term capital gains and losses and enter the result in column (1) or (3).
• Combine your foreign source long-term capital gains and losses and enter the result in column (2) or (4).

Line 2. Complete the Line 2 Worksheet on page 11 for each column on line 1 with a gain.

Line 4. Enter your net long-term capital loss (if any) from U.S. sources. To determine this amount, subtract your long-term capital losses from U.S. sources from your long-term capital gains from U.S. sources. Enter the loss (if any) as a positive amount in column (5). If you do not have a loss, leave line 4 blank and skip lines 5 through 14.

Line 5. Combine the amounts (if any) from columns (2) and (4) on line 2. Enter the result in column (5). If you do not have any amount entered in either column, enter -0- in column (5).

Line 6. Subtract line 5 from line 4. Enter the result in column (5). If the result is zero or less, leave line 6 blank and skip lines 7 through 14 of this worksheet.

Line 7.
• If you entered an amount in either column (2) or (4) (but not both) of line 3, subtract line 6 from the amount entered in either column (2) or (4) of line 3. Enter the result in column (2) or (4) on line 7 and skip lines 8 through 12.
• If you entered amounts in both columns (2) and (4) on line 3, combine those amounts and enter the result in column (5) on line 7.

Line 8. Divide each amount on line 3 by line 7 and enter the results on line 8. Round off each result to at least four decimal places.

Line 10. Subtract line 9, column (2) from line 3, column (2) and enter the result on line 10, column (2). Subtract line 9, column (4) from line 3, column (4) and enter the result on line 10, column (4).

Line 11. Multiply each amount on line 10 by 0.4286 and enter the results here.

Line 12. Combine line 11, column (2) with line 9, column (2) and enter the result on line 12, column (2). Combine line 11, column (4) with line 9, column (4) and enter the result on line 12, column (4). Include the amounts on line 1a of the applicable Form 1116. Skip lines 13 and 14.

Line 13. Multiply the amount on line 7 by 0.4286 and enter the result here in the applicable column.

Line 14. Combine line 6 and line 13 and enter the result here. Include the result on line 1a of the applicable Form 1116.

Line 15. If you have a:
• Short-term gain shown in column (1) or (3) of line 3, enter the amount of that short-term gain on line 15, column (1) or (3).
• Long-term gain shown in column (2) or (4) of line 3, and line 6 is blank, multiply the amount of each gain by 0.4286 and enter the result on line 15, column (2) or (4).
• Short-term loss in any column of line 1, complete the Line 15 Worksheet on page 12 for each column with a loss.
• Long-term loss in column (2) or (4) of line 1, multiply the amount of the loss by 0.4286 and enter the result on line 15 in the appropriate column.

After you have completed line 15:
• Include line 15 gain amounts on line 1a of the applicable Form 1116.
• Include line 15 loss amounts on line 5 of the applicable Form 1116.
## Instructions for Line 2 Worksheet

**For Line 2 of Worksheet B**

(See instructions below)

### Category #1

<table>
<thead>
<tr>
<th>Specify</th>
<th>Category #2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Separate category rate group gain (or loss)</td>
<td>1.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Short-Term</td>
</tr>
<tr>
<td>2. Separate category gain (or loss)</td>
<td>2.</td>
</tr>
<tr>
<td>3. Foreign source capital gain net income</td>
<td>3.</td>
</tr>
<tr>
<td>5. Total U.S. capital loss adjustment</td>
<td>5.</td>
</tr>
<tr>
<td>7. Rate Group Factor</td>
<td>7.</td>
</tr>
<tr>
<td>8. Rate Group Adjustment</td>
<td>8.</td>
</tr>
</tbody>
</table>

### Instructions for Line 2 Worksheet

**Line 1.** Enter your gains and losses from line 1 of Worksheet B. Enter a loss as a negative amount (in parentheses).

**Line 2.** For each separate category, combine the amounts from line 1. Enter a loss as a negative amount (in parentheses).

**Line 3.** Combine the amounts from line 2 of this worksheet. If the result is zero or less, stop here. Do not enter any amount on line 2 of Worksheet B.

**Line 4.** Enter the amount from line 16 of the Schedule D (Form 1040), less the portion of net capital gain you included on Form 4952, line 4g. If the amount entered on line 4 is zero or less, stop here. Do not continue with this worksheet or Worksheet B. Instead, complete Worksheet A.

**Estates and trusts:** Enter the amount from line 15 of the Schedule D (Form 1041), less any amount shown on line 21 of that Schedule D. If the amount entered on line 4 is zero or less, stop here. Do not continue with this worksheet or Worksheet B. Instead, complete Worksheet A.

**Line 5.** Subtract line 4 from line 3 and enter the result on line 5. If the result is zero or less, stop here. Do not enter any amount on line 2 of Worksheet B.

**Line 6.**
- If only one separate category has a positive amount on line 2, enter the amount from line 5 on line 6 (in the column for the separate category with the positive amount on line 2).
- If both separate categories have positive amounts on line 2, divide each amount on line 2 by line 3. Multiply each result by line 5. Enter the results on line 6 in the appropriate columns.

**Line 7.** For each separate category:
- If you entered an amount on line 6 and you entered positive amounts in both the short-term and long-term columns on line 1, divide each positive amount on line 1 by line 2 and enter the results in the appropriate columns.
- Leave line 7 blank if you did not enter an amount on line 6 or only one column on line 1 has a positive amount.

**Line 8.** For each separate category:
- If you entered amounts on line 7, multiply each amount on line 7 by line 6. Enter the results in the appropriate columns on line 8 of this worksheet and on line 2 of Worksheet B.
- If line 7 is blank, enter the amount from line 6 in the same column on line 8 as the column that has a gain on line 1. Also, enter the amount on line 2 of Worksheet B in the appropriate column. If line 6 is blank, do not enter any amount on line 8 of this worksheet or line 2 of Worksheet B.
**Line 15 Worksheet  (For Line 15 of Worksheet B)**

1. Enter your net short-term capital gain (if any) from U.S. sources. To determine this amount, subtract your short-term capital losses from U.S. sources from your short-term capital gains from U.S. sources. If the result is zero or a loss, enter -0-................................. 1. ________

2. If you entered a short-term gain on line 3 of Worksheet B, enter that amount here .................. 2. ________

3. Add lines 1 and 2 ............................................................... 3. ________

4. Did you enter a short-term capital loss on line 1 of Worksheet B for one (but not both) of the separate categories?
   - **Yes.** Complete lines 5–10 and skip the rest of this worksheet.
   - **No.** Skip lines 5–10 and go to line 11.

5. Enter the short-term capital loss from line 1 of Worksheet B **(enter the loss as a positive amount)** .......................... 5. ________

6. Enter the gain, if any, determined on line 3. If line 3 is not a gain, enter -0-................................. 6. ________

7. Subtract line 6 from line 5. If zero or a loss, enter -0-.................. 7. ________

8. Multiply line 7 by 0.4286 ............................................. 8. ________

9. Enter the smaller of line 5 or line 6 .............................................. 9. ________

10. Add lines 8 and 9. Enter the result here and on line 15 of Worksheet B .................................. 10. ________

11. Is the amount on line 1 zero?
   - **Yes.** Multiply each short-term loss by 0.4286. Enter the results on line 15 of Worksheet B. Skip the rest of this worksheet.
   - **No.** Go to line 12.

12. Enter your short-term loss from Worksheet B, line 1, column (1) **(enter the loss as a positive amount)** .......................... 12. ________

13. Enter your short-term loss from Worksheet B, line 1, column (3) **(enter the loss as a positive amount)** .......................... 13. ________


15. Enter the gain determined in line 1 ............................................ 15. ________

16. Subtract line 15 from line 14. .................................................. 16. ________

Is the result zero or less?
   - **Yes.** Skip the rest of this worksheet. Enter each short-term loss from line 1 on line 15 of Worksheet B, in the applicable column, without adjustment (that is, each short-term loss you enter on line 15 of Worksheet B will be the same as the short-term loss you entered on line 1 of Worksheet B).
   - **No.** Complete lines 17–22.

17. Multiply line 16 by 0.4286 .................................................. 17. ________

18. Add lines 15 and 17 ............................................................... 18. ________

19. Divide line 12 by line 14. .................................................. 19. ________

20. Multiply line 19 by line 18. Enter the result here and on Worksheet B, line 15, column (1) .............. 20. ________


22. Multiply line 21 by line 18. Enter the result here and on Worksheet B, line 15, column (3) .............. 22. ________
Specific Instructions

Part I—Taxable Income or Loss From Sources Outside the United States

Part I must be completed by all filers unless specifically indicated otherwise in these instructions.

Line g—Foreign Country or U.S. Possession

Generally, if you received income from, or paid taxes to, more than one foreign country or U.S. possession, report information on a country-by-country basis on Form 1116, Parts I and II. Use a separate column in Part I and a separate line in Part II for each country or possession. If you paid taxes to more than three countries or possessions, attach additional sheets following the format of Parts I and II.

If you have passive income that is treated as general category income because it includes foreign source income, you must use a separate column in Part I. Enter "HTKO" on line g of Forms 1116 for passive category income and general category income.

You do not need to report income passed through from a mutual fund or other regulated investment company (RIC) on a country-by-country basis. Total all income in the applicable category, passed through from the mutual fund or other RIC and enter the total in a single column in Part I. Enter "RIC" on line g.

Total all foreign taxes paid through and enter the total on a single line in Part II for the applicable category.

Lines 1a and 1b—Foreign Gross Income

Include income in the category checked above Part I that is taxable by the United States and is from sources within the country entered on line g. You must include income even if it is not taxable by that foreign country. Identify the type of income on the dotted line next to line 1a. Do not include any earned income excluded on Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion.

Example. If you received dividends (passive category income) and wages (general category income) from foreign sources, you must complete two Forms 1116. On one Form 1116, check box b (general category income) and enter the dividends on line 1a, and write "Dividends" on the dotted line. On the other Form 1116, check box g (passive category income) and enter the dividends on line 1a, and write "Dividends" on the dotted line. Complete Parts I, II, and III of each Form 1116. Then, complete Part IV on the Form 1116 with the larger amount entered on line 21.

If you are filing a Form 1116 that includes foreign source qualified dividends or foreign source capital gains or losses, see Foreign Qualified Dividends and Capital Gains (Losses) starting on page 5.

High-taxed income. On your Form 1116 for passive category income, passive income that is treated as general category income because it is high taxed should be included on line 1a of any column for the country entered on line g. Also, enter the high taxed income in the "HTKO" column on line 1a of any negative number. On your Form 1116 for general category income, the high-taxed income should be entered as a positive number on line 1a in the "HTKO" column.

Line 1b

You may check the box on line 1b if all of the following apply.

• The income on line 1a is compensation for services you performed as an employee.
• Your total employee compensation from all sources (U.S. and foreign sources) was $250,000 or more.
• You used an alternative basis (discussed in Pub. 514) to determine the source of the compensation entered on line 1a.

In addition, attach to Form 1116 a statement that contains the following information.

• The specific compensation income or the specific fringe benefit for which the alternative basis is used.
• For each such item, the alternative basis of allocation of source used.
• For each such item, a computation showing how the alternative allocation was computed.
• A comparison of the dollar amount of the compensation sourced within and without the United States under both the alternative basis and the time or geographical basis for determining the tax liability.

You must keep documentation showing why the alternative basis more properly determines the source of the compensation.

Lines 2 Through 5—Deductions and Losses

You must reduce your foreign gross income on line 1a by entering on lines 2 through 5:

• Any of your deductions that definitely relate to that foreign income, and
• A ratable share of your other deductions that do not definitely relate to that foreign income, any other foreign income, or U.S. source income.

Do not enter any amounts on lines 2 through 5 for your HTKO column. Add all the amounts that are definitely related or apportioned to passive income that is treated as general category income because it is high-taxed and enter the total amount of those deductions on line 6 in the HTKO column. Enter the amount as a negative number on your Form 1116 for passive category income. Enter the total amount as a positive number on your Form 1116 for general category income.

Do not include:

• Deductions and losses related to exempt or excluded income, such as foreign earned income you have excluded on Form 2555 or Form 2555-EZ.
• The deduction for personal exemptions. (However, you can include the additional exemptions for housing Midwestern displaced individuals from Form 8914, line 6.)

Special rules apply to the allocation of research and experimental expenditures. See Regulations section 1.861-17.

If the law of a U.S. state to which you pay income taxes does not specifically exempt foreign source income from tax, you may be required to make a special allocation of state taxes you paid. See Pub. 514 for more information.

Itemized deduction limit. If you must reduce the total amount of your itemized deductions on line 29 of Schedule A (Form 1040) by the amount of your adjusted gross income, use a separate line of Form 1116 for passive category income, or U.S. source income. You must reduce each of the itemized deductions that are subject to the reduction by the reduction percentage before you complete lines 2, 3a, and 4a.

Use the Itemized Deductions Worksheet in the Instructions for Form 1116 (2009) to determine the total itemized deduction limit for each category of income. You must reduce each itemized deduction in the "HTKO" column by the percentage allocated to that income. You must enter the itemized deduction limit on line 1a in the "HTKO" column. If you have an itemized deduction subject to the reduction, enter the itemized deduction on line 1b. If you do not have an itemized deduction subject to the reduction, enter zero on line 1b.

Form 1116 for general category income, high-taxed income should be entered as a positive number on line 1a in the "HTKO" column.

Line 1b

You may check the box on line 1b if all of the following apply.

• The income on line 1a is compensation for services you performed as an employee.
• Your total employee compensation from all sources (U.S. and foreign sources) was $250,000 or more.
• You used an alternative basis (discussed in Pub. 514) to determine the source of the compensation entered on line 1a.

In addition, attach to Form 1116 a statement that contains the following information.

• The specific compensation income or the specific fringe benefit for which the alternative basis is used.
• For each such item, the alternative basis of allocation of source used.
• For each such item, a computation showing how the alternative allocation was computed.
• A comparison of the dollar amount of the compensation sourced within and without the United States under both the alternative basis and the time or geographical basis for determining the tax liability.

You must keep documentation showing why the alternative basis more properly determines the source of the compensation.

Lines 2 Through 5—Deductions and Losses

You must reduce your foreign gross income on line 1a by entering on lines 2 through 5:

• Any of your deductions that definitely relate to that foreign income, and
• A ratable share of your other deductions that do not definitely relate to that foreign income, any other foreign income, or U.S. source income.

Do not enter any amounts on lines 2 through 5 for your HTKO column. Add all the amounts that are definitely related or apportioned to passive income that is treated as general category income because it is high-taxed and enter the total amount of those deductions on line 6 in the HTKO column. Enter the amount as a negative number on your Form 1116 for passive category income. Enter the total amount as a positive number on your Form 1116 for general category income.

Do not include:

• Deductions and losses related to exempt or excluded income, such as foreign earned income you have excluded on Form 2555 or Form 2555-EZ.
• The deduction for personal exemptions. (However, you can include the additional exemptions for housing Midwestern displaced individuals from Form 8914, line 6.)

Special rules apply to the allocation of research and experimental expenditures. See Regulations section 1.861-17.

If the law of a U.S. state to which you pay income taxes does not specifically exempt foreign source income from tax, you may be required to make a special allocation of state taxes you paid. See Pub. 514 for more information.

Itemized deduction limit. If you must reduce the total amount of your itemized deductions on line 29 of Schedule A (Form 1040) by the amount of your adjusted gross income, use a separate line of Form 1116 for passive category income, or U.S. source income. You must reduce each of the itemized deductions that are subject to the reduction by the reduction percentage before you complete lines 2, 3a, and 4a.

Use the Itemized Deductions Worksheet in the Instructions for Schedule A (Form 1040) to figure the reduction percentage. You must reduce the amount on line 11 of the worksheet (the overall reduction) by the amount on line 3 of the worksheet (total itemized deductions subject to the reduction). This is your reduction percentage. Apply this percentage (expressed as a decimal rounded to at least four places) to each itemized deduction subject to the reduction to determine the amount to enter on the appropriate line of Form 1116.

Note. You do not need to make this computation in the entire amount of your itemized deductions is entered on any one of the following lines: line 2, line 3a, or line 4a. Just enter your reduced itemized deductions on that line.

Example. You are single and have an adjusted gross income of $226,800. Your itemized deductions subject to the overall reduction (line 3 of the worksheet) total $20,000. $8,000 of these deductions are definitely related to the income on Form 1116, line 1a. The other $12,000 ($20,000 – $8,000) are real estate taxes, which are not definitely related.

The amount of the overall reduction on line 11 of the worksheet is $1,200. To figure the amount of the real estate tax to include in the total for line 3a of Form 1116, divide the amount on line 11 ($1,200) by the amount on line 3 ($20,000). This is your reduction percentage (6%). You must reduce $12,000 deduction by $720 (6% x $12,000). The reduced deduction of $11,280 ($12,000 – $720) is the amount to enter on line 3a of Form 1116. Make a similar computation to figure the amount of definitely related itemized deductions ($7,550) to enter on line 2.

Line 2

Before you complete line 2, read the itemized deduction limit on this page.

Enter your deductions that definitely relate to the gross income from foreign sources.
sources shown on line 1a. For example, if you are an employee reporting foreign earned income on line 1a, include on line 2 expenses such as those incurred to move to a new principal place of work outside the United States or supplies you bought for your job outside the United States. Do not include any interest expense on line 2. See lines 4a and 4b for special rules for interest expense.

**Lines 3a and 3b**

Some deductions do not definitely relate to either your foreign source income or your U.S. source income. Enter on lines 3a and 3b any deductions (other than interest expense) that:

- Are not shown on line 2.
- Are not definitely related to your U.S. source income.

**Line 3a.** Before you complete line 3a, read itemized deduction limit on page 13. Enter the following itemized deductions (from Schedule A (Form 1040)) on line 3a.

- Medical expenses (line 4)
- General sales tax (line 5)
- Real estate taxes (line 6)
- New motor vehicle taxes (line 7)
- Property tax paid or accrued by a nonresident alien (line 8)
- Alimony paid (line 9)
- Local income taxes (line 10)
- Foreign income tax on line 11

If you do not itemize deductions, enter your standard deduction on line 3a.

**Line 3b.** Enter on line 3b any other deductions that do not definitely relate to any specific type of income. Examples of these deductions are the deduction for alimony paid from Form 1040, line 31a, and the additional exemptions for housing Midwestern displaced individuals from Form 8914, line 6.

**Lines 3d and 3e**

For lines 3d and 3e, gross income means the total of your gross receipts (reduced by cost of goods sold), total capital and ordinary gains (before subtracting any losses), and all other income (before subtracting any deductions).

**Line 3d.** Enter your gross foreign source income from the category you checked above Part I of this Form 1116. Include any foreign earned income you have excluded on Form 2555 or Form 2555-EZ but do not include any other exempt income. If you had income from more than one country, you must enter income from only one country in each column. If you had to adjust your foreign qualified dividends or capital gains (see page 5), include those amounts without regard to any adjustments.

**Line 3e.** Enter on line 3e in each column your gross income from all sources and all categories, both U.S. and foreign. Include any foreign earned income you have excluded on Form 2555 or Form 2555-EZ but do not include any other exempt income. If you are a nonresident alien, include on both lines 3d and 3e your income that is not effectively connected with a trade or business in the United States. If you had to adjust your foreign qualified dividends or capital gains (see page 5), include those amounts without regard to any adjustments.

**Line 3f**

Divide line 3d by line 3e and round off the result to at least four decimal places (for example, if your result is 0.8756782, round off to 0.8757, not to 0.876 or 0.88). Enter the result, but do not enter more than “1.”

**Line 4a**

If your gross foreign source income (including income excluded on Form 2555 or Form 2555-EZ) does not exceed $5,000, you can allocate all of your interest expense to U.S. source income. Otherwise, deductible home mortgage interest (including points and qualified mortgage insurance premiums) is apportioned using a gross income method. Use the worksheet on this page to figure the amount to enter on line 4a.

Before you complete the worksheet, read itemized deduction limit on page 13.

**Line 4b**

Other interest expense includes investment interest, interest incurred in a trade or business, and passive activity interest. If you are a U.S. citizen, resident alien, or a domestic estate, and you have foreign qualified dividends or capital gains (including any income excluded on Form 2555 or Form 2555-EZ) does not exceed $5,000, you can allocate all of your interest expense to U.S. source income. Otherwise, each type of interest expense is apportioned separately using an “asset method.” See Pub. 514 for more information.

**Example.** You have investment interest expense of $2,000. Your assets of $110,000 consist of stock generating U.S. source income (adjusted basis, $40,000) and stock generating foreign source income (adjusted basis, $60,000). You apportion 40% ($40,000/$100,000) of $2,000, or $800 of your investment interest, to U.S. source income and 60% ($60,000/$100,000) of $2,000, or $1,200, to foreign source income. In this example, you will enter the $1,200 apportioned to foreign source income on line 4b. You would not enter the $800 apportioned to U.S. source income on any line of Part I of Form 1116.

**Line 5**

If you have capital losses from foreign sources, see “Foreign Qualified Dividends and Capital Gains (Losses)” starting on page 5 for information on adjustments you may be required to make.

---

**Part II—Foreign Taxes Paid or Accrued**

See page 2 for descriptions of foreign taxes that are eligible for the foreign tax credit and foreign taxes that are not eligible for the foreign tax credit.

You can take a foreign tax credit in the tax year you paid or accrued the foreign taxes, depending on your method of accounting. If you report on the cash basis, you can choose to take the credit for accrued taxes by checking the “accrued” box in Part II. But once you choose to do this, you must credit foreign taxes in the year they accrue on all future returns.

Generally, you must enter in Part II the amount of foreign taxes, in both the foreign currency denomination(s) and as converted into U.S. dollars, that...
relate to the category of income checked above Part I. Taxes are related to the income if the income is included in the foreign tax base on which the tax is imposed. If the foreign tax you paid or accrued relates to more than one category of income, apportion the tax among the categories. The apportionment is based on the ratio of net foreign taxable income in each category to your total worldwide foreign taxes subject to the foreign tax. See Pub. 514 for an example.

However, if foreign tax paid on passive income is reported to you in U.S. dollars on a Form 1099-DIV, 1099-INT, or similar statement, you do not have to convert the amount shown into foreign currency. This rule applies whether or not you can make the election to claim the foreign tax credit without filing Form 1116 (as explained on page 1). Enter “1099 taxes” in Part II, column (j), and compute column (k) through (p) for each foreign country indicated in Part I.

Note. If you are taking a credit for additional taxes paid or accrued as the result of an audit by a foreign taxing authority, do not make the election. You must state the amount allocable to foreign tax paid or accrued that is reflected on a foreign tax refund, attach a statement to Form 1116 identifying these taxes.

Part III—Figuring the Credit

Line 10 You can carry back 1 year and then forward 10 years any foreign tax you paid or accrued to any foreign country or U.S. possession (reduced as described under Line 12, starting on this page) on income in a separate category to which the limitation applies. First, apply the excess to the earliest years for which the election can be made. Then, apply it to the next earliest year, and so on. The carryback-carryforward period cannot be extended even if you are unable to take a credit in one of the intervening years.

Special rules apply to the carryback and carryforward of foreign taxes paid or accrued on foreign oil and gas income. In addition, special restrictions apply to the carryforward of pre-2009 unused oil and gas extraction taxes to years beginning after 2008. See section 907(f).

File Form 1040X or other amended return and a revised Form 1116 for the earlier tax year to which you are carrying back excess foreign taxes. Special rules for carryforwards of pre-2007 unused foreign taxes. The foreign taxes carried forward generally are allocated to your post-2006 separate income categories to which those taxes would have been allocated if the taxes were paid or accrued in a tax year beginning after 2006. Alternatively, you can allocate unused foreign taxes in the pre-2007 separate category or passive income to the post-2006 separate category for passive category income, and you can allocate all other unused foreign taxes in the categories that were eliminated in 2007 to the post-2006 separate category for general category income. Reductions. You cannot carry a credit back to a tax year for which you claimed a deduction, rather than a credit, for foreign taxes paid or accrued. However, you must reduce the amount of any carryback or carryforward by the amount that you would have used had you chosen to claim a credit rather than a deduction in that year.

If, for any year, you elected to claim the foreign tax credit without filing Form 1116 (as explained on page 1), the following rules apply.

• You cannot carry over unused foreign tax paid or accrued in a year to which the election does not apply to any earlier year for which you made the election.
• The carryback-carryforward period is not extended if you are unable to use a carryback or carryforward because you made the election.
• Do not reduce the carryback or carryforward by the amount you would have used in the election year if you had not made the election.

More information. See Pub. 514 for more information on carryback and carryforward provisions, including examples.

Line 12 You may have to reduce the foreign taxes you paid or accrued by the following items.

• Taxes on income excluded on Form 2555 or Form 2555-EZ. Reduce taxes paid or accrued by the taxes allocated to any foreign earned income excluded on Form 2555 or Form 2555-EZ. If only part of your foreign earned income is excluded, you must determine the amount of tax allocable to excluded income. To do so, multiply the foreign taxes paid or accrued on foreign earned income received or accrued during the tax year by the following fraction.

Numerators: Foreign earned income and hosting amounts you excluded for the tax year minus other deductible expenses (not including the foreign housing deduction) allocable to that income.

Denominators: Your total foreign earned income received or accrued during the tax year minus deductible expenses (including the foreign housing deduction) allocable to that income. However, if the foreign jurisdiction charges on income and some other income, for example, earned income from U.S. sources or a type of income not subject to U.S. tax) and the taxes on the other income cannot be segregated, the denominator is the total amount of income subject to foreign tax minus deductible expenses allocable to that income.

See Pub. 514 for a comprehensive example.

• Taxes on income from Puerto Rico exempt from U.S. tax. The reduction applies if you have income from Puerto Rican sources that is not taxable on your U.S. tax return. To figure the credit, reduce your foreign taxes paid or accrued by the taxes allocable to the exempt income. See Pub. 570 for more information.

• Taxes on income from American Samoa excluded from U.S. tax. If you are a bona fide resident of American Samoa, reduce taxes paid or accrued by any taxes attributable to excluded income from sources in American Samoa. For more information, see Pub. 570.

• Taxes on combined foreign oil and gas income. Reduce taxes paid or accrued by a portion of taxes imposed on combined foreign oil and gas income. The amount of the reduction is the amount by which your foreign oil and gas taxes exceed the amount of your combined foreign oil and gas income for the year multiplied by a fraction equal to your pre-credit U.S. tax liability (for example, see line 44 divided by your worldwide taxable income. You may be entitled to carry over to other years taxes reduced under this rule. See section 907(f).

Combining foreign oil and gas income is the sum of foreign oil related income and foreign oil and gas extraction taxes. Foreign oil and gas taxes are the sum of foreign oil and gas extraction taxes and foreign oil related taxes.

• Taxes on foreign mineral income. Reduce taxes paid or accrued on foreign mineral income from a foreign country or U.S. possession if you took a deduction for personal residence under section 613 for any part of the mineral income.

• Reduction for failure to file Form 5471. U.S. shareholders who control a foreign corporation must file Form 5471. Information Return of U.S. Persons With Respect to Certain Foreign Corporations. If you do not file Form 5471 and furnish all of the information required by the due date of your tax return, reduce by 10% all foreign taxes that you otherwise may take into account for the following year. You may have to make additional reductions if the failure continues. See section 6038(c) and regulations section 1.6038-2(k) for details and exceptions.

Note. The reduction in foreign taxes is reduced by any dollar penalty imposed under section 6038(b).

• Reduction for failure to file Form 8865. U.S. partners who control a foreign partnership must file Form 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships. If you do not file Form 8865 and furnish all of the information required by the due date of your tax return, reduce by 10% all foreign taxes that you otherwise may take into account for the foreign tax credit. You may have to make additional reductions if the failure continues. See section 6038(c) and regulations section 1.6038-3(k) for details and exceptions.

Note. The reduction in foreign taxes is reduced by any dollar penalty imposed under section 6038(b).

• Reduction of taxes or credit due to international boycott operations. In general, if you agree to participate in, or cooperate with, an international boycott, you must file Form 5713, International Boycott Report, and attach all supporting schedules. In addition, you must reduce either the total taxes available for credit or the credit
otherwise allowable by your foreign taxes resulting from boycott activities. If you can figure the tax liability attributable to boycott operations, enter the amount on line 12. If you cannot figure the amount of taxes specifically attributable to boycott operations, multiply the credit otherwise allowable by the international boycott factor ( figured on Schedule A (Form 5713), International Boycott Factor) and enter the result on Form 1116, line 28. Attach a statement to Form 1116 showing in detail how you figured the reduction. For more information, see Form 5713 and its instructions.

Line 13
You must adjust the amount you enter on line 13 if you have foreign taxes that relate to passive income that is treated as general category income because it is high-taxed. On your Form 1116 for passive and foreign must you, reduce the amount you enter on line 13 by the amount of your foreign taxes that relate to that foreign loss accounts. In the space above line 13, enter “HTKO” and the amount of the reduction as a negative number (in parentheses). Example. For 2009, you completed two Form 1116s. The first had a loss from category income of $2,000 on line 14, the second had passive category income of $4,000 on line 14, and the third had income of $1,000 from a certain income re-sourced by treaty category on line 14. You must allocate the $2,000 loss between the passive category income and the certain income re-sourced by treaty category in the same proportion as each category’s income bears to the total foreign income.

Line 14
The amount on line 14 is your taxable income (or loss) before adjustments from sources outside the United States. If the amount on line 14 is zero or a loss, you generally have no foreign tax credit for the category of income checked above Part I of this Form 1116. However, you must complete line 15 and continue with the form even if line 14 is zero or a loss.

Line 15
You are required to increase or decrease the amount on line 14 by the following adjustments. Some adjustments must be made in the order listed. If you have more than one adjustment, enter the net adjustment on line 15 and attach a detailed statement showing your computation. See Pub. 514 for more details on each of these adjustments.

The adjustments are:
1. Allocation of foreign losses. If you have a loss on line 14 of one Form 1116 and have income on line 14 of one or both Form 1116s, you must reduce the foreign income by a pro rata share of the loss before you use any remaining loss to reduce U.S. source income. If the loss reduces foreign source income, you create, or increase the balance of, a separate limitation loss account. If the loss reduces foreign income, you create, or increase the balance in, an overall foreign loss account and for later years, you must follow the rules described under Recapture of prior year overall foreign loss accounts beginning on this page. If the loss in one category reduces foreign source income in another category and that second category has a separate limitation loss account with respect to the first category, then the two offsetting separate limitation loss account balances are netted for purposes of determining the amount of income in either category that is subject to recategorization under Recapture of separate limitation loss accounts on page 17.

2. Allocation of U.S. losses. If you have a net loss from U.S. sources, proportionately allocate that loss among the separate categories of your foreign income. Reduce the income on line 14 (adjusted by any allocation of losses, as described under Allocation of foreign losses in these line 15 instructions) by including (in parentheses) on line 15 the allocable portion of any U.S. loss. In later years, you will be allowed to treat part of your U.S. source income as foreign source income. A U.S. loss includes a rental loss on property located in the United States. If you have any qualified dividends or capital gains (including capital gain distributions) or losses for the taxable year and you are required to make any adjustments to those amounts, as explained earlier under Foreign Qualified Dividends and Capital Gains (Losses) starting on page 9 or the instructions for line 17, the amount of your U.S. loss is the lesser of:
   a. The total of the amounts entered on line 14 for each Form 1116 you are completing. This is the amount entered on line 17 of the Form 1116.
   b. The amount entered on line 17 of the Form 1116.

3. Recapture of prior year overall foreign loss accounts. If you had an overall foreign loss in a prior year that offset U.S. source income, and you receive foreign income (in the same category as the loss) that is recharacterized as U.S. source income in each following tax year, the excess of your total foreign income subject to recategorization is the lesser of the following:
   a. The total amount of maximum potential recapture in all overall foreign loss accounts. The maximum potential recapture amount (in any account for a category is the lesser of:
      i. The current year taxable income from foreign source income that category (the amount from line 14, less any adjustment for allocation of losses, as described earlier under Allocation of foreign losses and Allocation of U.S. losses for that category), or
      ii. The balance in the overall foreign loss account for that category.
   b. 50% (or more, if you choose) of your total taxable income from foreign sources if the foreign loss subject to recategorization is the amount described in a above, then for each separate category the recapture amount is computed by multiplying the total recapture amount by the following fraction:

Maximum potential recapture amount for the overall foreign loss account in the separate category:

Total amount of maximum potential recapture in all overall foreign loss accounts
Reduce the amount on line 14 by including (in parentheses) on line 15 the amount of the recapture for the category checked above Part I as the amount determined above. Be sure to attach a statement to Form 1116 showing in detail how you figured the reduction. If you recapture more of an overall foreign loss than is required (b above), show in your computation the percentage of taxable income recategorized and the dollar amount recategorized.
Dispositions of certain property. If you generated foreign source gain in the current year, you must include the gain in your U.S. source income for that tax year to the extent it offsets foreign source taxable income for any preceding tax year (in which you chose to claim the foreign tax credit) because of a carryback.

5. Recapture of overall domestic loss accounts. If you have an overall domestic loss for any tax year beginning after 2006, you create, or increase the balance in, an overall domestic loss account and you must recharacterize a portion of your U.S. source taxable income as foreign source taxable income in succeeding years for purposes of the foreign tax credit. If you have qualified dividends or capital gains, you may be subject to recapture as certain income must be recharacterized as foreign source taxable income. You cannot make any adjustments to those amounts when you completed lines 1a and 5. You cannot make this election if you have any foreign qualified dividends or capital gains (or losses) and you chose not to make any adjustments to those amounts when you completed lines 1a and 5. In this case, complete Worksheet 17 on page 16 to figure the smaller of:

a. Line 16 of your Qualified Dividends and Capital Gain Tax Worksheet

b. Line 5 of your Qualified Dividends and Capital Gain Tax Worksheet

c. Line 14 of your Qualified Dividends and Capital Gain Tax Worksheet

Adjustment exception. If you qualify for the adjustment exception and elect not to adjust your qualified dividends and capital gains, you must make this election by not completing the Worksheet for Line 17. You must make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you chose not to make any adjustments to those amounts when you completed lines 1a and 5. In this case, complete Worksheet 17 on page 16.

Instructions for Form 1116 (2009)
exemption (for example, the amount from Form 1040, line 41), minus any amount shown on Form 8914, line 6.

Adjustment exception for Form 1040 filers. You qualify for the adjustment exception if you meet both of the following requirements:

1. Line 7 of the Qualified Dividends and Capital Gain Tax Worksheet does not exceed:
   - $208,850 if married filing jointly or qualifying widow(er);
   - $104,425 if married filing separately;
   - $171,550 if single;
   - $190,200 if head of household.
2. The amount of your foreign source net capital gain, plus the amount of your foreign source qualified dividends is less than $20,000. For this purpose, ignore any capital gain distributions or qualified dividends you elected to include on Form 4952, line 4g.

Adjustment exception for Form 1040NR filers. You qualify for the adjustment exception if you meet both of the following requirements:

1. Line 5 of the Qualified Dividends and Capital Gain Tax Worksheet does not exceed:
   a. $208,850 if you checked filing status box 6,
   b. $104,425 if you checked filing status box 3, 4, or 5,
   c. $171,550 if you checked filing status box 1 or 2.
2. The amount of your foreign source net capital gain, plus the amount of your foreign source qualified dividends is less than $20,000.

Your foreign source net capital gain is the excess of your foreign source net long-term capital gain over your foreign source net short-term capital loss.

Completing the Worksheet for Line 17. If you do not need to complete the Worksheet for Line 17, do the following.

Lines 2 through 5. Skip these lines.

Line 6. Enter the amount from:
   - Line 13 of the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040 instructions, or
   - Line 11 of the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040 instructions.

Line 8. Enter the amount from:
   - Line 10 of the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040 instructions, or
   - Line 8 of the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040NR instructions.

Complete all other lines as instructed on the worksheet.

Estates and Trusts That Completed a Qualified Dividends Tax Worksheet or Schedule D

If you completed the Qualified Dividends Tax Worksheet in the instructions for Form 1041 or you completed Part V of Schedule D (Form 1041), you must use the Worksheet for Line 17, below, to figure the amount to enter on line 17 if:

1. You figured your tax using the Qualified Dividends Tax Worksheet, line 5 of that worksheet is greater than zero, and line 14 of your Qualified Dividends Tax Worksheet is less than line 15 of that worksheet, or
2. You figured your tax using the Part V of Schedule D (Form 1041), line 23 of the Schedule D is greater than zero, and line 32 of the Schedule D is less than line 33.

Adjustment exception. If you qualify for the adjustment exception, you can elect not to adjust your qualified dividends and capital gains. You make this election by not completing the Worksheet for Line 17. You must make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you chose not to make any adjustments to those amounts when you completed lines 1a and 5. You cannot make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you made adjustments to those amounts when you completed lines 1a and 5. In this case, complete the Worksheet for Line 17. You qualify for the adjustment exception if:

1. Line 5 of the Qualified Dividends Tax Worksheet or line 23 of Schedule D (Form 1041) does not exceed $8,200, and
2. The amount of your foreign source net capital gain, plus the amount of your foreign source qualified dividends, is less than $20,000. For this purpose, ignore any foreign source qualified dividends or capital gains that you elected to include on Form 4952, line 4g.

Your foreign source net capital gain is the excess of your foreign source net long-term capital gain over your foreign source net short-term capital loss.

If you are not required to complete the Worksheet for Line 17 or you qualify for the adjustment exception and elect not to adjust your qualified dividends and capital gains, enter on line 17 of Form 1116 the estate’s or trust’s taxable income without the deduction for its exemption.

Completing the Worksheet for Line 17. If you do need to complete the Worksheet for Line 17, do the following.

Worksheet for Line 17 (Worldwide Qualified Dividends and Capital Gains)

Caution: See the instructions for Line 17 beginning on page 17 before starting this worksheet.

1. Individuals: Enter the amount from Form 1040, line 41 (minus any amount on Form 8914, line 6). If you are a nonresident alien, enter the amount from Form 1040NR, line 38 (minus any amount on Form 8914, line 6).

2. Estates and trusts: Enter taxable income without the deduction for your exemption

3. Multiply line 2 by 0.2000

4. Enter your worldwide 25% gains (see instructions)

5. Multiply line 4 by 0.2857

6. Enter your worldwide 15% gains and qualified dividends (see instructions)

7. Multiply line 6 by 0.5714

8. Enter your worldwide 0% gains and qualified dividends (see instructions)

9. Add lines 3, 5, 7, and 8

10. Subtract line 9 from line 1. Enter the result here and on Form 1116, line 17

-18- Instructions for Form 1116 (2009)
Lines 2 through 5. Skip these lines.

Line 6. Enter the amount from line 11 of the Qualified Dividends Tax Worksheet or line 29 of Schedule D.

Line 8. Enter the amount from line 8 of the Qualified Dividends Tax Worksheet or line 26 of Schedule D.

Taxpayers Who Completed the Schedule D Tax Worksheet

If you figured your tax using the Schedule D Tax Worksheet (in the Schedule D (Form 1040) instructions or in the Schedule D (Form 1041) instructions), you must use the Worksheet for Line 17 on page 18 to figure the amount to tax on line 17 of Form 1116 if:

- Line 17 of the Schedule D Tax Worksheet is greater than zero, and
- Line 34 of the Schedule D Tax Worksheet is less than line 35.

Adjustment exception. If you qualify for the adjustment exception, you can elect not to adjust your qualified dividends and capital gains. You make this election by not completing the Worksheet for Line 17. You must make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you made adjustments to those amounts when you completed lines 1a and 5. You cannot make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you made adjustments to those amounts when you completed lines 11a and 5. In this case, complete the Worksheet for Line 17. You qualify for the adjustment exception if:

1. The amount of your foreign source qualified dividends plus the amount of your foreign source net capital gains is less than $25,000, and
2. Line 17 of the Schedule D Tax Worksheet (Form 1040) is less than or equal to:
   - $208,850 if married filing jointly or qualifying widow(er),
   - $104,425 if married filing separately, or
   - $190,200 if head of household (or, for trusts and estates, line 17 of the Schedule D Tax Worksheet (Form 1040) is less than or equal to $8,200).

   Your foreign source net capital gain is the excess of your foreign source net long-term capital gain over your foreign source net short-term capital loss. Ignore any foreign source qualified dividends or capital gains that you elected to include on Form 4952, line 4g, in determining the amount of your foreign source qualified dividends and net capital gain. If you are not required to complete the Worksheet for Line 17 or you qualify for the adjustment exception and elect not to adjust your qualified dividends and capital gains, enter on line 17 of Form 1116 your taxable income without the deduction for your exemption (for example, the amount from Form 1040, line 41), minus any amount shown on Form 8914, line 6.

If you do need to complete the Worksheet for Line 17, do the following:

Line 2. Enter the amount (if any) from line 31 of the Schedule D Tax Worksheet.

Line 4. Enter the amount (if any) from line 28 of the Schedule D Tax Worksheet.

Line 6. Enter the amount (if any) from line 22 of the Schedule D Tax Worksheet.

Line 8. Enter the amount (if any) from line 19 of the Schedule D Tax Worksheet.

Complete all other lines as instructed on the worksheet.

Line 19

If you are completing line 19 for separate category c (lump-sum distributions), enter the amount from line 5 of the Worksheet for Lump-Sum Distributions on page 4.

Do not complete line 19 for separate category c (section 901(j) income). See page 3.

For all other applicable categories, complete line 19 as follows.

Form 1040 filers. Enter the amount from Form 1040, line 44, less any tax included on line 44 from Form 4972.

Form 1040NR filers. Enter the amount from Form 1040NR, line 41, less any tax included on line 41 from Form 4972.

Form 1041 filers. Enter the amount from Form 1041, Schedule G, line 1a.

Line 21 The maximum foreign tax credit you can claim in the current year is generally limited to the allocated amount of U.S. tax imposed on the foreign income, or the actual amount of foreign tax paid or accrued on the foreign income (after reductions required on line 12) whichever is less. However, see Foreign Taxes Eligible for a Credit on page 2 for additional information.

If the amount on line 20 is smaller than the amount on line 13, see Pub. 514 for more information on carryback and carryforward provisions, including examples.

Part IV—Summary of Credits From Separate Parts III

Complete lines 22 through 25 in Part IV only if you must complete more than one Form 1116 because you have more than one of the categories of income listed above Part I.

Complete Part IV on only one Form 1116 (the one with the largest amount entered on line 21) to summarize the credits you figured on all of your Forms 1116. If you do not complete a Form 1116 for category e (lump-sum distributions) or c (section 901(j) inc.), do not complete line 35 of Form 1116 as your summary. Enter the credits from line 21 of all of your Forms 1116 on lines 22 through 25 of the Form 1116 with the largest amount entered on line 11 to summarize your credits. File the other Forms 1116 as attachments.

Line 27 Enter the smaller of line 19 or line 26.

Note. Generally, line 26 will exceed line 19 only if you have U.S. capital gains or qualified dividends that are subject to the capital gain rate differential (figured in the Worksheet for Line 17 on page 18).

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. The time needed to complete this form and to review the instructions or from line 22 of the Schedule D Tax Worksheet. Instructions for Form 1116 (2009) 6:36 - 1-DEC-2009.

The type and rule above prints on all proofs including departmental reproduction proofs. MUST be removed before printing.