

Department of the Treasury
Internal Revenue Service

Instructions for Form 1118

Computation of Foreign Tax Credit—Corporations

(Revised July 1975)

(References are to the Internal Revenue Code and regulations thereunder)

General Instructions

A. Corporations Required to File Form 1118.—Form 1118 must be attached to the income tax return of any corporation electing to claim the benefits of a foreign tax credit under Section 901.

The form must be carefully filled in with all the information called for and with the calculation of credits indicated. (Section 1.905-2(a)(2) of the regulations.)

Effective for taxable years ending after December 31, 1974, a separate Form 1118 is required for foreign oil related income.

B. Foreign Taxes for which Credit May be Claimed.—The credit may be claimed for income, war profits, and excess profits taxes paid or accrued during the taxable year to any foreign country or to any U.S. possession, and the taxes deemed to have been paid or accrued under sections 902 and 960. (Section 1.901-1(a)(2) of the regulations.)

The term "income, war profits, and excess profits taxes" includes a tax imposed by statute or decree by a foreign country or U.S. possession if: (1) the country or possession has in force a general income tax law, (2) the corporation claiming the credit would, in the absence of a specific provision applicable to the corporation, be subject to the general income tax, and (3) the general income tax is not imposed on the corporation subject to such substituted tax. (Section 1.903-1(a) of the regulations.)

Any income, war profits, and excess profits taxes paid or accrued to any foreign country in connection with the purchase and sale of oil or gas extracted in such country is not to be considered as tax for purposes of sections 275(a) and 901 if: (1) the taxpayer has no economic interest in the oil or gas to which section 611(a) applies, and (2) either such purchase or sale is at a price which differs from the fair market value for such oil or gas at the time of such purchase or sale. (Section 901(f).)

A credit is not allowed for excess tax payments to a foreign country with which the U.S. has a tax treaty if such excess would be refunded by the foreign country if a tax treaty or overpayment claim were made.

No credit is allowed for amounts representing interest or penalties. (Section 1.901-2(a) of the regulations.)

For reduction in the amount of foreign taxes for which a credit may be claimed, see General Instruction J.

C. Corporations Not Allowed Credit.—The credit is not allowed to: (1) a China Trade Act corporation; (2) a domestic corporation entitled to the benefits of section 931; or (3) a regulated investment company which has exercised the election under section 853. (Section 1.901-1 of the regulations.)

D. Taxes Against which Credit is Allowed.—The foreign tax credit is allowed against income tax imposed by chapter 1 but not against any: (1) minimum tax for tax

preferences imposed by section 56; (2) tax on premature distributions to owner-employees imposed for the taxable year under section 72(m)(5)(B); (3) tax on lump sum distributions imposed by section 402(e); (4) additional tax on income from certain retirement accounts imposed for the taxable year by section 408(f); (5) tax on accumulated earnings imposed by section 531; (6) personal holding company tax imposed by section 541; (7) additional tax imposed for the taxable year under section 1333 (relating to war loss recoveries); (8) additional tax imposed for the taxable year under section 1351 (relating to recoveries of foreign expropriation losses); (9) increase in tax under section 47 (relating to dispositions of investment credit property); (10) increase in tax under section 50A(c) (relating to early termination by an employer in a WIN program); and (11) tax on certain capital gains of electing small business corporations imposed by section 1378.

Foreign corporations may not take the credit against any tax imposed by section 881 on income not effectively connected with the conduct of a trade or business within the U.S.

E. No Deduction if a Credit is Claimed.—If a corporation elects for any taxable year to claim a credit for taxes to any extent, the election will apply to income, war profits, and excess profits taxes paid or accrued in the taxable year to all foreign countries and U.S. possessions and no portion of the tax will be allowed as a deduction in the taxable year or any succeeding taxable year. (Section 1.901-1(c) of the regulations.)

The election for any taxable year may be made or changed at any time before the end of the period prescribed for making a claim for credit or refund of tax for the taxable year. (Section 901(a).)

Members of an affiliated group electing under section 243 to deduct 100% of qualifying dividends received from members of the same affiliated group are treated as one taxpayer for purposes of making elections under sections 901(a) and 904(b)(1). (Section 243(b)(3)(B).)

F. When Foreign Tax Credit Can be Taken.—You can take the credit for the year in which the taxes were paid or accrued depending on the method of accounting used. However, if you report on the cash basis, you can elect to claim the credit for accrued taxes. You can make the election by checking the appropriate box in the heading for column 1 of Schedule B. This election must be followed in all subsequent years. (Section 905(a).)

G. Credit for Tax Accrued But Not Paid.—If you claim a credit for tax accrued but not paid, Internal Revenue may require you to furnish a bond on Form 1117 as a condition precedent to the allowance of the credit. (Section 1.905-4 of the regulations.)

H. Proof of Credits.—Payment or accrual of each item of foreign tax for which you claim a credit must be substantiated by

attaching to Form 1118 a receipt if the tax is paid, or the foreign tax return on which the tax is based if the tax is accrued but not paid. If such receipt or return is in a foreign language, a certified translation must also be attached. Internal Revenue may accept secondary evidence of foreign taxes paid or accrued if it can be established to its satisfaction that it is impossible to furnish a receipt, return, or direct evidence of tax withheld. (Section 1.905-2 of the regulations.)

Foreign taxes paid or accrued by a foreign corporation for which a deemed paid credit is claimed under section 902 or 960 must be similarly substantiated. (Sections 1.902-3(a)(6) and 1.960-1(f) of the regulations.)

I. Credit for Taxes of Foreign Corporations Deemed to Have Been Paid.

(1) Under Section 902.—If a domestic corporation owns 10% or more of the voting stock of a foreign corporation (first-tier foreign corporation) from which it receives a dividend, the domestic corporation is deemed to have paid a proportionate amount of the foreign income, war profits, and excess profits taxes paid, accrued, or deemed paid by the first-tier foreign corporation. (Section 902(a).)

If the first-tier foreign corporation owns 10% or more of the voting stock of a second-tier foreign corporation from which it receives a dividend, and the product of the percentage of voting stock owned by the domestic corporation in the first-tier foreign corporation and the percentage of voting stock owned by the first-tier foreign corporation in the second-tier foreign corporation equals at least 5%, the first-tier foreign corporation is deemed to have paid a proportionate amount of the foreign income, war profits, and excess profits taxes paid, accrued or deemed paid by the second-tier foreign corporation. (Section 902(b)(1).)

If the second-tier foreign corporation owns 10% or more of the voting stock of a third-tier foreign corporation from which it receives a dividend, and the product of the percentage of voting stock owned by the domestic corporation in the first-tier foreign corporation, the percentage of voting stock owned by the first-tier foreign corporation in the second-tier foreign corporation, and the percentage of voting stock owned by the second-tier foreign corporation in the third-tier foreign corporation equals at least 5%, the second-tier foreign corporation is deemed to have paid a proportionate amount of the foreign income, war profits, and excess profits taxes paid or accrued by the third-tier foreign corporation. (Section 902(b)(2).)

You may not claim a credit under section 902 for taxes paid by a registered foreign investment company to which the election under section 1247(f) applies. (Section 1.1247-4(b)(2)(vii) of the regulations.)

For purposes of section 904, all foreign income taxes paid or deemed paid by a first-tier foreign corporation and deemed paid by the domestic corporation under section 902, are deemed to have been paid to the foreign country or U.S. possession under the laws of which such first-tier foreign corporation is created or organized. (Section 1.902-3(d)(2) of the regulations.)

(2) Under Section 960(a).—If a domestic corporation is required under section 951 to include in gross income an amount attributable to the earnings and profits of a foreign corporation (first-tier foreign corporation) of which it owns 10% or more of the voting stock, or of a foreign corporation (second-tier foreign corporation) of which such first-tier foreign corporation owns 50% or more of the voting stock, the domestic corporation is deemed to have paid a proportionate amount of the foreign income, war profits, and excess profits taxes paid, accrued, or deemed paid by such first-tier foreign cor-

poration, or paid or accrued by such second-tier foreign corporation. (Section 1.960-1(c)(1) of the regulations.)

For purposes of section 904, all foreign taxes paid by a first-tier or second-tier foreign corporation and deemed to be paid by the domestic corporation under section 960(a) are deemed to have been paid to the foreign country or U.S. possession under the laws of which such first-tier foreign corporation, or the first-tier foreign corporation of such second-tier foreign corporation, is created or organized. (Section 1.960-1(i)(2) of the regulations.)

(3) *Mixed Application of Sections 902 and 960(a).*—Section 902(b)(1) applies to all dividends received by a first-tier foreign corporation from a second-tier foreign corporation (as defined for purposes of section 960(a)) other than dividends attributable to earnings and profits of such second-tier foreign corporation in respect of which an amount is, or has been, included in the gross income of a domestic corporation under section 951 with respect to such second-tier foreign corporation. (Section 1.960-2(b) of the regulations.)

Section 902(a) applies to all dividends received by the domestic corporation for its taxable year from a first-tier foreign corporation, other than dividends attributable to earnings and profits of such first-tier foreign corporation in respect of which an amount is, or has been, included in the gross income of a domestic corporation under section 951 with respect to such first-tier foreign corporation. (Section 1.960-2(c)(1) of the regulations.)

If a first-tier foreign corporation for its taxable year receives from a second-tier foreign corporation (as defined for purposes of section 960(a)) dividends to which section 902(b)(1) applies and other dividends to which section 902(b)(1) does not apply, then in applying sections 902(a) and 960(a) with respect to the foreign income taxes deemed paid under section 902(b)(1) by such first-tier foreign corporation for such taxable year, the earnings and profits of the first-tier foreign corporation shall be considered not to include its earnings and profits attributable to such other dividends from the second-tier foreign corporation, and for purposes of so applying section 902(a), distributions to the domestic corporation from such earnings and profits which are attributable to such other dividends from the second-tier foreign corporation shall not be treated as a dividend. (Section 1.960-2(d) of the regulations.)

(4) *Corporations Treated as Foreign.*—For purposes of the deemed paid credit, the term "foreign corporation" includes: (1) a China Trade Act corporation, (2) a domestic corporation entitled to the benefits of section 931, and (3) a DISC or former DISC (as defined in section 992(a)), but only with respect to dividends from the DISC or former DISC to the extent such dividends are treated under sections 861(a)(2)(D) and 862(a)(2) as income from sources without the U.S. (Section 901(d).)

(5) *Dividend Gross-up.*—Under section 78, taxes deemed paid by a domestic corporation under sections 902 and 960(a) with respect to distributions by a foreign corporation out of accumulated profits of a year in which the foreign corporation was not a less developed country corporation must be included in income as a dividend gross-up. (See Section 1.960-3(b) of the regulations for exceptions.)

See section 902(d) for the definition of a less developed country corporation.

A DISC or former DISC is not considered

a less developed country corporation for purposes of section 902. (Section 1.902-4(a)(2)(iii) of the regulations.)

J. Reduction in Foreign Taxes.—

(1) *Taxes on Foreign Oil and Gas Extraction Income.*—The amount of any foreign taxes paid, accrued, or deemed paid in any taxable year ending after December 31, 1974 with respect to foreign oil and gas extraction income which may be taken into account for purposes of section 901 must be reduced by the amount (if any) by which the amount of such taxes exceeds the product of the amount of foreign oil and gas extraction income for such taxable year and the applicable percentage from Section 907(a)(2). (Section 907(a).)

For computation of the reduction, see separate Schedule F, Form 1118.

(2) *Taxes on Foreign Oil Related Income Treated as Income from Sources within the U.S.*—For any taxable year ending after December 31, 1975 taxes paid, accrued, or deemed paid in such taxable year to a foreign country with respect to foreign oil related income must be reduced by an amount which bears the same proportion to the total amount of such foreign taxes as the amount of foreign oil related income treated as income from sources within the U.S. under section 907(f)(1)(A), concerning recapture of foreign oil related losses, bears to the total foreign oil related income for such taxable year. (Section 907(f)(1)(B).)

(3) *Taxes on foreign mineral income.*—The amount of any income, war profits, and excess profits taxes paid or accrued, or deemed paid during the taxable year to any foreign country or U.S. possession with respect to foreign mineral income derived from sources within such country or possession must be reduced by the lesser of (a) the amount of such foreign taxes minus the amount of U.S. tax computed under Chapter 1 of the Code with respect to such foreign mineral income, or (b) the amount of U.S. tax which would be computed under Chapter 1 of the Code with respect to such foreign mineral income without regard to the deduction for percentage depletion under section 613 minus the amount of U.S. tax computed under Chapter 1 of the Code with respect to such foreign mineral income. The reduction must be made on a country-by-country basis, irrespective of the limitation method used. (Section 1.901-3(a)(1) of the regulations.)

The reduction applies only if a deduction for percentage depletion under section 613 was allowed with respect to any part of such foreign mineral income. (Section 1.901-3(a)(3)(i) of the regulations.)

A schedule must be attached showing the computation described in (a) and (b) above of the foreign and U.S. tax with respect to foreign mineral income. (Section 1.901-3(a)(3)(iv) of the regulations.)

(4) *Affiliated groups which include one or more Western Hemisphere Trade Corporations.*—If an affiliated group which includes one or more Western Hemisphere trade corporations files a consolidated return and elects the overall limitation, the amount of taxes paid or accrued to foreign countries and U.S. possessions by such Western Hemisphere trade corporations must be reduced by the amount (if any) by which the smaller of (a) the amount of such taxes or (b) the amount of tax which would be computed under section 1503(a) if such corporations were not Western Hemisphere trade corporations with respect to the portion of the consolidated taxable income attributable to such corporations, exceeds the amount of tax computed under section 1503(a) with respect to the portion of the consolidated taxable income attributable to such corporations. The result of such reduction is that the foreign taxes which may not be credited are the taxes in excess of what the U.S. taxes

are for Western Hemisphere trade corporations, but only to the extent such foreign taxes do not exceed the U.S. taxes that would be imposed on such corporations if they were not Western Hemisphere trade corporations. The reduction is adjusted if the Western Hemisphere trade corporations are also regulated public utilities. (Section 1503(b).)

If a Western Hemisphere trade corporation is a member of an affiliated group and derives foreign oil and gas extraction income for the taxable year, the reduction for foreign taxes with respect to such income is the greater of the reduction determined as described above applied separately to such taxes or the reduction determined as described in instruction J(1). (Section 907(g).)

(5) *Failure to furnish return required under Section 6038.*—For each failure of a domestic corporation to furnish any return or any information in any return required under authority of section 6038 on or before the prescribed date, in the application of sections 902 and 960, all taxes paid or deemed paid by all foreign corporations controlled by such domestic corporation must be reduced by 10%, and in the application of section 901 all taxes paid or deemed paid (except taxes deemed paid under section 904(d) and taxes reduced in the application of sections 902 and 960) by such corporation must be reduced by 10%. If such failure continues for 90 days or more after the date of written notice by Internal Revenue to such domestic corporation, the reductions are 10% plus 5% for each three month period or fraction thereof during which such failure continues after expiration of the 90-day period. (Section 1.6038-2(l) of the regulations.)

K. Limitation on Credit.—

The credit is limited to a percentage of the total U.S. income tax against which the credit is allowed. The computation must be made by using either the per-country limitation or the overall limitation.

(1) *Per-country limitation.*—If the overall limitation is not elected, the per-country limitation applies. Under the per-country limitation, the credit is computed separately for each foreign country and U.S. possession. The credit is limited to that percentage of the total U.S. income tax against which the credit is allowed which taxable income from sources within each country or possession (but not in excess of total taxable income) is of total taxable income. (Section 904(a)(1).)

(2) *Overall limitation.*—If the overall limitation is elected, the credit is limited to that percentage of the total U.S. income tax against which the credit is allowed which taxable income from sources without the U.S. (but not in excess of total taxable income) is of total taxable income. (Section 904(a)(2).)

(3) *Election of the overall limitation.*—The initial election to use the overall limitation may be made by checking the appropriate box at the top of Schedule B. The initial election may be made (or revoked) without the Commissioner's consent at any time before the end of the period prescribed for claiming a credit or refund of taxes for the taxable year for which the election is made. Once the initial election has been made and the period prescribed for making such election has expired, it may not be revoked without the Commissioner's consent.

(4) *Separate Limitations for:* (1) *Foreign Oil Related Income*, (2) *Section 904(f) Interest Income*, and (3) *Dividends from a DISC or Former DISC.*—In computing the credit for (1) foreign taxes paid, accrued, or deemed paid with respect to foreign oil related income (in taxable years ending after December 31, 1974), (2) foreign taxes paid or accrued with respect to interest income

described in section 904(f)(2), and (3) foreign taxes paid, accrued, or deemed paid under section 902 with respect to dividends from a DISC or former DISC, limitations separate from all other income must be applied. (Sections 904(f) and 907(b).)

The separate limitation for foreign oil related income must be applied on an overall basis in taxable years ending after December 31, 1975.

The separate limitation for section 904(f) interest must be applied on a per-country basis. The overall limitation cannot be used. (Section 1.904-4(a)(1) of the regulations.)

The separate limitation for dividends from a DISC or former DISC is applied to the aggregate of such dividends received in the taxable year from all DISCs and former DISCs. (Section 904(f)(5).)

(5) *Increase in Limitation under Section 960(b).*—The applicable limitation under section 904(a) may be increased under section 960(b) in a taxable year in which you receive a distribution of earnings and profits in respect of which you were required under section 951 to include an amount in gross income for a prior taxable year. See section 960 and section 1.960-4 of the regulations for computation of the increase in the applicable limitation.

L. Carryback and Carryover of Excess Taxes Paid.—

Taxes paid or accrued, or deemed paid under sections 902 and 960, to any foreign country or U.S. possession (reduced as described in General Instruction J) in excess of the applicable limitation may be carried back 2 years and then forward 5 years. The excess must first be applied to the earliest of the 7 years to which it may be carried, then to the next earliest year, etc. (Section 904(d).)

If a credit was not claimed in a taxable year to which the excess is carried, the excess is considered used in such year in the same manner as though a credit had been claimed. (Section 1.904-2(d) of the regulations.)

The carryback and carryover provisions must be applied separately to the excess with respect to: (1) foreign oil related income (in taxable years ending after December 31, 1974), (2) interest income described in section 904(f)(2), (3) dividends from a DISC or former DISC, and (4) all other income from sources without the U.S. (Sections 904(f)(1) and 907(b).)

The excess is computed on an overall basis in taxable years in which the overall limitation applies. (Section 904(e)(1).)

The excess may not be carried from a per-country year to an overall year or vice versa (except as provided in section 907(e) and the regulations under section 904(f)). However, the years to which the excess may not be carried because a different limitation was used are counted in determining whether a carryback or carryover is available. (Section 904(e)(2).)

See section 907(e) for special rules affecting the carryover from taxable years ending before January 1, 1975 to any taxable year ending after December 31, 1974.

M. Foreign Corporations Claiming Foreign Tax Credit.—Section 906 allows foreign corporations a foreign tax credit for income, war profits, and excess profits taxes paid or accrued (or deemed paid or accrued under section 902) to any foreign country or U.S. possession with respect to income effectively connected with the conduct of a trade or business within the U.S. The credit is not applicable, however, to the extent the tax is imposed by a foreign country or possession on income from U.S. sources solely because the foreign corporation was created or organized under the law of the foreign country or possession or is domiciled there for tax purposes.

In applying the per-country and overall limitations, taxable income includes only that taxable income which is effectively connected with the conduct of a trade or business within the U.S.

The credit cannot be taken against any tax imposed by section 881 on income not effectively connected with a U.S. business.

For purposes of section 902(a) (relating to tax deemed to have been paid) and section 78 (relating to gross-up of dividends), a foreign corporation claiming a foreign tax credit will be treated as a domestic corporation.

N. Method of Reporting.—Report all amounts in U.S. dollars. If it is necessary to convert from foreign currency, attach a statement explaining how you determined the rate.

Specific Instructions for Schedules A through E

A separate Form 1118 must be filed in taxable years ending after December 31, 1974 for the credit with respect to: (1) foreign oil related income and (2) all other income from sources without the U.S. Indicate by checking the appropriate box at the top of Schedule A which type of income the credit is being computed for.

Schedule A.—Taxable Income or (Loss) from Sources Without the U.S.

The determination of gross income, applicable deductions, and taxable income from sources without the U.S. and within each foreign country or U.S. possession must be made in accordance with sections 638, 861 through 864, and 907(f) and the regulations thereunder and applicable tax treaties. If the overall limitation is elected, all income from sources without the U.S., including high seas income, must be taken into account. High seas income must be shown separately and properly identified.

All applicable columns in Schedule A must be completed line by line including the "Totals" line, irrespective of the limitation used.

In columns 2 through 9 report all gross income or (loss) from sources without the U.S. except: (1) gross income of foreign branches, and (2) gross income from activities described in section 863(b). In columns 11 and 12 report all deductions applicable to gross income reported in columns 2 through 9. See the instructions for columns 14 and 15 for treatment of income of foreign branches and section 863(b) income, respectively.

In completing Schedule A for foreign oil related income, report only gross income and deductions applicable to the determination of foreign oil related income.

Column 1.—Enter the names of all foreign countries and U.S. possessions within which income is sourced, and/or to which taxes are paid, accrued, or deemed paid.

Column 2.—Report all dividends (before gross-up) from sources without the U.S., including constructive distributions under section 951. See section 861(a)(2)(A) for treatment of dividends from a domestic corporation entitled to the benefits of section 931 and from other domestic corporations less than 20 percent of whose gross income is derived from sources within the U.S. See section 861(a)(2)(B) for treatment of dividends from a foreign corporation 50 percent or more of whose gross income was effectively connected with the conduct of a trade or business within the U.S.

Dividends from DISCs or former DISCs, to the extent such dividends are treated under sections 861(a)(2)(D) and 862(a)(2) as income from sources without the U.S., must

be reported on the separate "DISC Dividends" line.

Column 3.—Enter the dividend gross-up for taxes deemed paid. See General Instruction I(5) for an explanation of the dividend gross-up.

Column 4.—Enter section 904(f) interest by country on the "Section 904(f) Interest" lines. If interest is excluded from section 904(f) interest by virtue of sections 904(f)(2)(C) or 904(f)(2)(D), a schedule must be attached showing in sufficient detail the manner in which the 10% direct or indirect ownership requirements are met. (Section 1.905-2(c) of the regulations.)

Column 6.—Include gross income, whether in the form of compensation, commissions, fees, or otherwise, derived from the performance of technical, managerial, engineering, construction, scientific or similar services. Do not include gross income from services performed through a foreign branch.

Column 9.—Include all other gross income from sources without the U.S., except gross income of foreign branches and gross income from activities described in section 863(b). Attach a schedule identifying the gross income by type and by foreign country or U.S. possession of source.

Column 11(d).—Include all other deductions definitely allocable to income from sources without the U.S. (dividends, interest, etc.) except deductions allocable to income of foreign branches and section 863(b) income.

Column 12.—Section 862(b) provides that a ratable part of expenses, losses, and other deductions which cannot definitely be allocated to some item or class of gross income shall be deducted from gross income from sources without the U.S. in arriving at taxable income from sources without the U.S. Report in column 12 only that ratable part which applies to gross income reported in columns 2 through 9. Attach a schedule showing in detail the determination of this ratable part.

Column 14.—Attach a schedule showing in detail the determination of taxable income or (loss) of each foreign branch. The schedule should include, for each foreign branch, an income statement, balance sheet, and schedule of midyear remittances.

Column 15.—Section 863(b) and the regulations thereunder provide special rules for determining taxable income from sources without the U.S. with respect to gross income derived partly within and partly without the U.S. Report in column 15 taxable income or (loss) apportioned to sources without the U.S. under these special rules. (Taxable income of foreign branches from sources without the U.S. determined under these special rules should be reported in column 14, not column 15.) Attach a schedule showing gross income, definitely allocable deductions, the ratable part of deductions not definitely allocable, and the apportionment of taxable income to sources within and without the U.S.

Schedule B.—Foreign Taxes Paid or Accrued and Deemed to Have Been Paid, and Computation of Foreign Tax Credit

Columns 1 through 5 must be completed line by line, including the "Totals" line, irrespective of the limitation method used. If the overall limitation is used, complete only the "Totals," "Section 904(f) Interest," and "DISC Dividends" lines in columns 6 through 14. If the per-country limitation is used, complete all lines except the "Totals" line

in columns 6 through 14. See General Instruction K for an explanation of the limitation.

In completing Schedule B for foreign oil related income, report only taxes paid or accrued and deemed to have been paid with respect to foreign oil related income. For taxable years ending after December 31, 1975, the per-country limitation cannot be applied to foreign oil related income. (See General Instruction K(4).)

Column 1.—If you claim a credit for taxes accrued, show both the date accrued and the date paid (if paid). (See General Instruction F.)

Column 2.—Enter the type of tax (income, war profits, or excess profits).

Column 4.—Enter foreign taxes paid or accrued on the line for the country or U.S. possession imposing the tax. Report all amounts in U.S. dollars. If amounts were converted from foreign currency, attach a schedule showing in detail how the conversion rates were determined. See General Instruction H for proof of credits required.

Include in column 4(g) tax withheld at source on income other than dividends, interest, rents, royalties, and license fees, and all other foreign taxes paid or accrued. Do not include taxes deemed to have been paid, which are reported in column 5.

Column 5.—Enter the tax deemed to have been paid to each foreign country or U.S. possession from column 11, Schedule C. Enter the total amount of taxes deemed to have been paid with respect to dividends from DISCs and former DISCs on the "DISC Dividends" line.

Column 6.—See General Instruction J for an explanation of the reduction for taxes under sections 901(e), 907(a), 1503(b), and 6038.

If taxes are reduced under section 907(a), Schedule F (Form 1118) must be completed.

Report in column 6 the reduction for taxes under section 6038 not already reduced in the application of sections 902 and 960(a).

Column 7.—See General Instruction L for an explanation of the carryback and carryover provisions.

A schedule must be attached showing in detail computation of the carryback and carryover. (Section 1.904-2(f) of the regulations.)

Column 8.—If you use the per-country limitation, add columns 4(h), 5, and 7 and subtract column 6 line by line. If the overall limitation is used, perform the calculations only on the "Totals," "Section 904(f) Interest," and "DISC Dividends" lines.

Column 9.—If you use the per-country limitation, copy line by line the entries in column 16, Schedule A. Do not complete the "Totals" line. If the overall limitation is used, copy only the entries on the "Totals," "Section 904(f) Interest," and "DISC Dividends" lines in column 16, Schedule A.

Column 10.—If you use the per-country limitation, enter on each line total taxable income (after net operating loss and special deductions) from all sources. If the overall limitation is used, make the entry only on the "Totals," "Section 904(f) Interest," and "DISC Dividends" lines.

Column 11.—If you use the per-country limitation, the ratio of column 9 to column 10 must be computed line by line. If the overall limitation is used compute the ratio only for the "Totals," "Section 904(f) Interest," and "DISC Dividends" lines.

In computing the ratio(s), if the entry in column 9 exceeds the entry in column 10 for any line, enter a one (1) in column 11 for that line. (See General Instruction K.)

Column 12.—If you use the per-country limitation, enter on each line the total U.S. income tax (before credits) against which the credit is claimed. Do not make an entry

on the "Totals" line. If you use the overall limitation, make the entry only on the "Total," "Section 904(f) Interest," and "DISC Dividends" lines.

See General Instruction D for taxes against which a credit may be claimed.

Column 13.—If you use the per-country limitation, the product of columns 11 and 12 must be computed line by line. If the overall limitation is used, compute the product only for the "Totals," "Section 904(f) Interest," and "DISC Dividends" lines.

Column 14.—If you use the per-country limitation, enter for each line the amount in column 13 or column 8, whichever is less. If the overall limitation is used, make the entries only for the "Totals," "Section 904(f) Interest," and "DISC Dividends" lines.

Enter the sum of the individual amounts in Column 14 in the "Total Foreign Tax Credit" line. If you derived no foreign oil related income in the taxable year, this sum should be entered on your tax return. If you did derive foreign oil related income in the taxable year, enter on your tax return the sum of the amounts in the "Total Foreign Tax Credit" line from the Form 1118 filed for foreign oil related income and the Form 1118 filed for all other income derived from sources without the U.S.

Schedule C.—Computation of Taxes Deemed to Have Been Paid by Domestic Corporation Filing this Return

Column 2.—If dividends are from the accumulated profits of more than 1 year, the tax deemed to have been paid must be computed and shown on a separate line for each year.

Computations under section 902(a) and 960(a) for a first-tier foreign corporation, even though for the same year, must be made on separate lines. Further, separate lines must be used for computations under section 902(a) and 960(a) with respect to the foreign income taxes deemed paid by a first-tier foreign corporation under section 902(b)(1). (See General Instruction I(3).)

Column 3.—If computation is for a second-tier foreign corporation under section 960(a), also indicate (in parentheses) the country of incorporation of the first-tier foreign corporation of such second-tier foreign corporation.

Column 5.—See General Instruction H for proof of credit required, and General Instruction J(5) for reduction of foreign taxes for failure to furnish information required under section 6038.

Column 6.—See General Instruction I(3) for exclusions from the earnings and profits of a first-tier foreign corporation for purposes of applying sections 902(a) and 960(a) with respect to the foreign income taxes deemed paid by such first-tier foreign corporation under section 902(b)(1).

Column 7.—Enter the amount of dividends (1) paid or constructively distributed by the related foreign corporation to the domestic corporation, (2) paid by the related domestic corporation to the domestic corporation, and (3) paid or deemed distributed by the DISC or former DISC to the domestic corporation.

See General Instruction I(3) for certain distributions made by a first-tier foreign corporation to the domestic corporation which are not treated as dividends for purposes of applying section 902(a) with respect to the foreign income taxes deemed paid by such first-tier foreign corporation under section 902(b)(1).

For purposes of section 902, Internal Revenue may determine from which year's ac-

cumulated profits the dividends were paid. In making the determination, Internal Revenue will, unless it is otherwise established to its satisfaction, treat any dividends which are paid in the first 60 days of any taxable year as having been paid from the accumulated profits of the preceding taxable year or years, and will treat dividends which are paid after the first 60 days of any taxable year as having been paid from the most recently accumulated profits.

Column 8.—For dividends paid by a foreign corporation out of accumulated profits of a year for which the foreign corporation was a less developed country corporation, disregard the instruction in the column heading and enter the amount determined by multiplying column 5 by column 6 and dividing the result by the gains, profits, and income for the year.

The gains, profits, and income is determined by the gains, profits, and income from all sources, whether or not subject to foreign tax, for the year from which the dividends (column 7) were paid.

Schedule D.—Computation of Tax Deemed to Have Been Paid by First-tier Foreign Corporations

Column 1.—Enter the name of the second-tier foreign corporation.

Column 2.—If dividends are from the accumulated profits of more than 1 year, the tax deemed to have been paid must be computed and shown on a separate line for each year.

Column 5.—Same instructions as Schedule C.

Column 7.—Enter the amount of dividends paid by the second-tier foreign corporation to the first-tier foreign corporation to which section 902(b)(1) applies. (See General Instruction I(3).)

Column 8.—Same instructions as Schedule C.

Column 11.—Carry the amount of tax deemed to have been paid to Schedule C, column 9 and enter on the line for the related first-tier foreign corporation.

Schedule E.—Computation of Tax Deemed to Have Been Paid by Second-tier Foreign Corporations

Column 1.—Enter the name of the third-tier foreign corporation.

Column 2.—Same instructions as Schedule D.

Column 5.—Same instructions as Schedule C.

Column 7.—Enter the amount of dividends paid by the third-tier foreign corporation to the second-tier foreign corporation.

Column 8.—Same instructions as Schedule C.

Column 10.—Enter the amount from column 8.

Column 11.—Carry the amount of tax deemed to have been paid to Schedule D, column 9 and enter on the line for the related second-tier foreign corporation.

Schedule F.—Computation of Reduction of Foreign Taxes on Foreign Oil and Gas Extraction Income

Attach Schedule F (Form 1118) if you derived any foreign oil and gas extraction income during the taxable year.