



# Instructions for Form 1118

(Revised November 1991)

## Foreign Tax Credit—Corporations

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

**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.

The time needed to complete and file this form and related schedules will vary depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing and sending the form to the IRS
1118	71 hr., 45 min.	18 hr., 19 min.	22 hr., 42 min.
Sch. I (1118)	8 hr., 51 min.	1 hr.	1 hr., 11 min.
Sch. J (1118)	89 hr., 12 min.	1 hr., 5 min.	2 hr., 35 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form and related schedules more simple, we would be happy to hear from you. You can write to both the IRS and the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

## A Change You Should Note

**Schedule H**—The instruction for the “Two-Year Exclusive Apportionment Rules” (on page 6 of the instructions) was added to reflect the rules contained in section 864(f). These rules were added by section 7111 of the Revenue Reconciliation Act of 1989 and modified by section 11401(a) of the Revenue Reconciliation Act of 1990.

## General Instructions

### A. Who Must File

Any corporation that elects the benefits of the foreign tax credit under section 901 must attach Form 1118 to its income tax return. **Important:** For any tax year that a corporation elects the benefits of the foreign tax credit to any extent, that corporation is not permitted to claim a deduction (in the current tax year or in any subsequent tax year) for any portion of the foreign taxes paid or accrued during that tax year. See General Instruction K for more information.

**Note:** A regulated investment company that has made an election under section 853 cannot claim the foreign tax credit (or take a deduction) for foreign taxes paid.

### B. Filing Requirements

The corporation must complete Form 1118 to separately compute the foreign tax credit for each of several statutory categories of income. See General Instruction C for descriptions of these “separate limitation categories.”

For each separate limitation, the corporation computes its separate limitation income or (loss) before adjustments on Schedule A using the general rules outlined in General Instruction D. That income or (loss) is carried over to Schedule B, Part II and is used in determining the “foreign

tax credit limitation” (described in General Instruction E).

**Note:** You must report all amounts in U.S. dollars unless otherwise specified. If it is necessary to convert from a foreign currency, attach a statement explaining how you determined the conversion rate.

**Note also:** Schedule A; Schedule B, Parts I & II; Schedules C through G; and Schedule I are completed for each applicable separate limitation whereas Schedule B, Part III; Schedule H; and Schedule J are generally completed only once.

### C. Descriptions of Separate Limitation Categories

#### 1. Passive Income

Generally, passive income is: (a) any income you receive or accrue that would be “foreign personal holding company income” (as defined in section 954(c)) if you were a “controlled foreign corporation” (CFC) (as defined in section 957), including any amount of gain on the sale or exchange of stock in excess of the amount treated as a dividend under section 1248. However, in determining whether any income would be foreign personal holding company income, the rules of section 864(d)(6) will apply only in the case of income of a CFC; and (b) any amount includible in gross income under sections 551 and 1293 (which relate to foreign personal holding companies and certain passive foreign investment companies).

**Exceptions.**—Passive income does **not** include: (a) any income that belongs in one of the other separate limitation categories described in 2 through 9 below; (b) any “export financing interest” (defined in section 904(d)(2)(G)) unless it is also “related person factoring income” as defined in the “interaction” rule of Regulations section 1.904-4(h)(3); (c) any “high-taxed income” (as defined in section 904(d)(2)(F)); or (d) any foreign oil and gas extraction income (as defined in section 907(c)).

Also, passive income generally does not include any “active rents or royalties.” See Regulations section 1.904-4(b)(2) for definition and for exceptions.

**Note:** Certain income you receive from a CFC that would otherwise be passive income may be assigned to another “separate category” under the “look-through rules” (discussed after separate limitation category 9 on page 2).

### 2. High Withholding Tax Interest

High withholding tax interest is any interest subject to a withholding tax or other gross basis tax of a foreign country or U.S. possession at a rate of 5% or more.

High withholding tax interest does **not** include “export financing interest” (as defined in section 904(d)(2)(G)).

### 3. Financial Services Income

Financial services income is generally any income you receive or accrue while you are a “financial services entity” (as defined in Regulations section 1.904-4(e)(3)) that is: (a) described in section 904(d)(2)(C)(ii); (b) passive income (determined without regard to section 904(d)(2)(A)(iii)(I)); or (c) “export financing interest” (as defined in section 904(d)(2)(G)) that would be high withholding tax interest but for section 904(d)(2)(B)(ii).

Financial services income does **not** include: (a) any high withholding tax interest; (b) any dividend from a noncontrolled section 902 corporation; and (c) any export financing interest not described in section 904(d)(2)(C)(i)(III).

**Note:** If you qualified as a financial services entity because you treated certain amounts as “active financing income” that are not listed in Regulations sections 1.904-4(e)(2)(i)(A) through (X), but that are described as “similar items” in Regulations section 1.904-4(e)(2)(i)(Y), you must attach a statement to Form 1118 showing the types and amounts of the similar items.

### 4. Shipping Income

Shipping income is any income you receive or accrue that is “foreign base company shipping income” (as defined in section 954(f)).

Shipping income does **not** include: (a) any dividend from a noncontrolled section 902 corporation; (b) any financial services income; or (c) any high withholding tax interest.

### 5. Dividends From EACH Noncontrolled Section 902 Corporation

A noncontrolled section 902 corporation is any foreign corporation with respect to which you meet the stock ownership requirements of section 902(a) (or, for purposes of applying section 904(d)(3), the requirements of section 902(b)). A CFC is not to be treated as a noncontrolled section 902 corporation with respect to any distribution out of its earnings and profits (E&P) for periods during which: (a) it was a CFC; and (b) except as provided in regulations, you were a U.S. shareholder in the CFC.

See section 904(d)(2)(E)(ii) for a special rule for taxes on high withholding tax interest of the noncontrolled section 902 corporation.

### 6. Dividends From a DISC or Former DISC

Include in this separate limitation category dividends from a DISC or former DISC (as defined in section 992(a)) to the extent those dividends are treated as income from sources outside the United States.

## 7. Taxable Income Attributable to Foreign Trade Income

Include in this separate limitation category taxable income attributable to foreign trade income within the meaning of section 923(b).

## 8. Certain Distributions From a FSC or Former FSC

Include in this separate limitation category distributions from a FSC (or former FSC) out of E&P attributable to "foreign trade income" (within the meaning of section 923(b)) or interest or carrying charges (as defined in section 927(d)(1)) derived from a transaction that results in foreign trade income.

## 9. General Limitation Income

This is the residual category. Include all income not described in the definitions of the other separate limitations listed above. Be sure to include "high-taxed income" that would otherwise be passive income. Generally, income is "high-taxed" if the total foreign income taxes paid, accrued, or deemed paid by the taxpayer with respect to that income exceed the highest rate of tax specified in section 1 or 11, whichever applies (and with reference to section 15, if applicable), multiplied by the amount of such income (including the amount treated as a dividend under section 78).

**Look-Through Rules.**—Generally, any dividends, interest, rents, and royalties you receive or accrue from a CFC in which you are a U.S. shareholder is not income in a "separate category" (as defined in section 904(d)(3)(F)). However, section 904(d)(3) provides the following exceptions:

a. Subpart F inclusions (which are included in income under section 951(a)(1)(A)), to the extent they are attributable to income in a separate category;

b. Interest, rents, and royalties, to the extent they are properly allocable (in accordance with the underlying regulations) to income of the CFC in such category; and

c. Dividends paid out of the E&P of the CFC, in proportion to the ratio of the portion of E&P attributable to income in that category to the total amount of E&P.

See section 904(d)(3) and Regulations section 1.904-5.

## D. General Rules For Computing Separate Limitation Income or (Loss) Before Adjustments

**1. General Source Rules.**—Determine your separate limitation income or (loss) before adjustments on Schedule A using the following rules, as applicable: (a) the general source rules of sections 861 through 864 (and related regulations) outlined below; (b) the specific source rules of section 904(g) described below; and (c) any applicable source rules that are contained in any applicable tax treaties.

Section 861 lists gross income items that are to be treated as U.S. sourced and section 862 lists gross income items that are to be treated as foreign sourced. Section 863 provides for the allocation or apportionment of gross income items not listed in either section 861 or 862 (including "income partly from within and partly from without the U.S."). Section 864 provides special rules for the treatment of "effectively connected income" and "related person factoring income" and for the allocation and apportionment of interest and other expenses. **Note:** *The basic rules for allocating and apportioning interest expense, research and development (R&D) deductions, and other expenses are described in detail in the Specific Instructions for Schedule H.*

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Section 904(g)(1) states that, generally, the following types of income that you derive from a "United States-owned foreign corporation" (as defined in section 904(g)(6)) that would otherwise be treated as foreign source income must be treated as U.S. source income, but only to the following extent:

a. Any "subpart F income" (defined in section 951(a)), "foreign personal holding company income" (defined in section 551), or "income from a qualified electing fund" (defined in section 1293) that a U.S. shareholder is required to include in its gross income—to the extent such amount is attributable to the United States-owned foreign corporation's U.S. source income;

b. Interest—to the extent it is properly allocable (under the underlying regulations) to the United States-owned foreign corporation's U.S. source income; and

c. Dividends—to the extent of the "United States source ratio" (defined in section 904(g)(4)(B)).

See section 904(g)(5) for an exception to the rules regarding interest and dividends described in b and c above in the case of a U.S.-owned foreign corporation that has a small amount of U.S. source income.

**2. Capital Gains.**—Your separate limitation income or (loss) before adjustments should generally include gain from the sale or exchange of capital assets, but only to the extent of "foreign source capital gain net income" (which is the lesser of capital gain net income from sources outside the U.S. or capital gain net income). Therefore, if you have capital gain net income from sources outside the U.S. that is in excess of the capital gain net income you reported on your tax return, enter the excess on Schedule A, column 9d as a negative number.

**Note:** *See sections 904(b)(2)(B) for special rules in the case of any tax year for which there is a "capital gain rate differential" (as defined in section 904(b)(3)(D)). At the time these instructions went to print, there was no capital gain rate differential.*

**3. Coordination With Section 936.**—Any income taken into account in computing the possessions corporation tax credit under section 936 is excluded from taxable income in computing the foreign tax credit limitation (section 904(b)(4)).

**4. Foreign Corporations Claiming Credit.**—For purposes of computing the foreign tax credit limitation, the foreign corporation's taxable income shall be treated as consisting only of the taxable income that is effectively connected with the conduct of a trade or business within the U.S. (section 906(b)(2)).

## E. Foreign Tax Credit Limitation

A foreign tax credit is computed for each "separate limitation category" (see General Instruction C for a definition of each category). Each credit is limited by section 904.

Each limit is computed as follows:

**1.** Divide your separate limitation income (which is computed on Schedule A, adjusted on Schedule J (if applicable), and then entered on Schedule B, Part II, line 6) by your taxable income from all sources (which is computed on Schedule B, Part II, lines 7a through 7c). **Note:** *This limitation fraction may not exceed "1.00000."*

**2.** Multiply the result in **1** above by the total U.S. income tax against which the credit is allowed (see the instructions for Schedule B, Part II, line 9 for the definition).

The limitation may be increased under section 960(b) for any tax year during which you receive a distribution of previously taxed E&P. See section 960(b)(2) and Regulations section 1.960-4 for rules regarding the computation of the increase in the limit.

## F. Foreign Taxes for Which Credit May Be Claimed

Section 901(b)(1) states that, generally, a domestic corporation is allowed to claim the foreign tax credit (subject to the limitation of section 904) for the amount of any "income, war profits, and excess profits taxes" (defined in Regulations section 1.901-2) paid or accrued during the tax year to any foreign country or to any possession of the United States, and for taxes deemed paid under sections 902 and 960. (For these purposes, "foreign taxes for which credit may be claimed" also includes "taxes paid in lieu of income taxes" as described in section 903 and the related regulations.) However, this general rule is qualified as follows:

**1.** No credit (or deduction) is allowed for "certain payments for oil and gas" (described in section 901(f));

**2.** No credit (or deduction) is allowed for "certain taxes paid with respect to distributions from possessions corporations" (described in section 901(g));

**3.** No credit is allowed for "taxes paid with respect to foreign trade income" (described in section 901(h));

**4.** No credit (or deduction) is allowed for "certain taxes used to provide subsidies" (described in section 901(i));

**5.** No credit is allowed for taxes paid or accrued (or deemed paid under section 902 or section 960) to any section 901(j) foreign country (see the Specific Instructions for Schedule G, Part I for list);

**6.** No credit is allowed if you make the election to deduct taxes paid or accrued to any foreign country or U.S. possession. (Regulations section 1.901-1(h)(2));

**7.** No credit (or deduction) is allowed for taxes that were reduced under section 907(a);

**8.** No credit is allowed for certain "foreign taxes on foreign oil related income" (described in section 907(b));

**9.** No credit (or deduction) is allowed for any tax paid or accrued to a foreign country or U.S. possession with respect to taxable income that is taken into account in computing the possessions corporation tax credit described in section 936 (section 936(c));

**10.** No credit (or deduction) is allowed for taxes "attributable to income excluded under section 814(a)" (relating to contiguous country branches of domestic life insurance companies); and

**11.** No credit is allowed if you elect instead to claim a credit under the terms of an applicable tax treaty.

In addition to the above listed items, some "foreign taxes" that are otherwise eligible for the foreign tax credit must be reduced using the rules outlined in the Specific Instructions for Schedule G. These include certain gross basis foreign taxes described in the special rule of Regulations section 1.904-4(g)(2)(iii) regarding dividends from a noncontrolled section 902 corporation out of E&P attributable to high withholding tax interest.

## G. Proof of Credits

The requirements of section 905(b) (and the related regulations) were eased by the issuance of Notice 88-65, 1988-1 C.B. 552, in which the

IRS announced the suspension of all but the first sentence of Regulations section 1.905-2(a)(2) and all of Regulations section 1.905-2(b). The suspension was effective beginning January 1, 1988. **Caution:** *Foreign tax credits must still be substantiated with proper documentation that must be available for examination on request. (See Rev. Rul. 67-308, 1967-2 C.B. 254.) The suspension of the regulations means that, until further notice, the documentation previously required by the regulations need not be submitted when the return is filed.*

Substantiation that must be attached to Form 1118 includes: (1) a schedule that shows the amounts of foreign taxes paid or accrued in foreign currency and the conversion rate(s) used in arriving at the U.S. dollar amounts entered in Schedule B, Part I, column 2; and (2) a statement that identifies any foreign taxes paid or accrued that resulted from an audit adjustment made by a foreign taxing authority.

**Note:** *If you claim a foreign tax credit for tax accrued but not paid, the IRS may require you to furnish a bond on Form 1117, Income Tax Surety Bond, as a condition precedent to the allowance of the credit. (Regulations section 1.905-2(d)).*

#### H. Carryback and Carryover of Excess Allowable Foreign Taxes Paid

The amount of "allowable foreign taxes" paid, accrued, or deemed paid (as defined in General Instruction F) in a tax year in excess of the foreign tax credit limitation for that tax year generally 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. See section 904(c) and Regulations section 1.904-2 for more details.

If you did not take a credit in one of the 7 tax years to which the excess may be carried, the excess is considered used in that year in the same manner as though you had claimed the credit. See Regulations section 1.904-2(d) for more details.

For each earlier tax year to which you are carrying back the excess foreign tax credit, file an amended tax return and a revised Form 1118. For any tax year to which you are carrying back or carrying forward the excess foreign tax credit, attach the statement described in Regulations section 1.904-2(f).

#### Transitional Rules

1. Taxes paid or accrued in a pre-1987 tax year with respect to the pre-1987 "nonbusiness interest" separate limitation category are to be carried over to the post-1986 passive income category.

2. Taxes paid or accrued in a pre-1987 tax year with respect to the pre-1987 general limitation income category are generally to be carried over to the post-1986 general limitation income category. However, such taxes are to be carried over to the post-1986 high withholding tax interest, financial services income, or shipping income categories to the extent the corporation establishes to the satisfaction of the IRS that such taxes were paid or accrued with respect to those categories.

3. Taxes paid or accrued in a pre-1987 tax year with respect to any of the following pre-1987 separate limitation categories are to be carried over to the corresponding post-1986 separate limitation category: (a) dividends from a DISC or former DISC; (b) taxable income attributable to foreign trade income; and (c) certain distributions from a FSC or former FSC.

See section 907(f) for rules regarding the carryback and carryover of related taxes and foreign oil and gas extraction taxes paid or accrued in excess of the section 907(a) limitation.

#### I. Definition of "Foreign Corporation" for Purposes of the Deemed Paid Credit

For purposes of computing the deemed paid credit on Schedules C, D, and E, the term "foreign corporation" includes: (1) 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 those dividends are treated under sections 861(a)(2)(D) and 862(a)(2) as income from sources outside the U.S.; and (2) a contiguous country life insurance branch that has made an election to be treated as a foreign corporation under section 814(g).

#### J. 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, if the tax is imposed by a foreign country or U.S. possession on income from U.S. sources solely because the foreign corporation was created or organized under the law of the foreign country or U.S. possession or is domiciled there for tax purposes.

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 paid) and section 78 (relating to dividend gross-up), a foreign corporation claiming a foreign tax credit will be treated as a domestic corporation.

#### K. No Deduction If a Credit Is Claimed

If a corporation elects for any tax year the benefits of the foreign tax credit to any extent, the election will apply to income, war profits, and excess profits taxes paid or accrued in the tax year to all foreign countries and U.S. possessions and no portion of the tax will be allowed as a deduction in the tax year or any succeeding tax year. (Regulations section 1.901-1(c)). **Exceptions:** Even though you claim the foreign tax credit, you may still take a deduction for those foreign taxes for which the credit was denied because of the boycott provisions (see section 908(b)) and because of the application of section 901(j) (see section 901(j)(3)). Also, see section 907(b) concerning the deduction of certain foreign oil and gas extraction taxes.

The election for any tax year may be made or changed at any time before the end of the special 10-year period prescribed by Regulations section 1.901-1(d).

#### L. Foreign Tax Redeterminations

A foreign tax redetermination is a change in your foreign tax liability that may affect your foreign tax credit. Some examples are:

- a. A refund of foreign taxes you paid;
- b. A difference between the dollar value of the accrued foreign tax and the dollar value of the foreign tax actually paid attributable to differences in the units of foreign currency paid and the units of foreign currency accrued; or
- c. A difference between the dollar value of the accrued foreign tax and the dollar value of the foreign tax actually paid attributable to

fluctuations in the value of the foreign currency relative to the dollar between the date of accrual and the date of payment.

**Notification requirements.**— If, as the result of a foreign tax redetermination, you are required (under Temporary Regulations section 1.905-3T) to redetermine your U.S. tax liability, you must file **Form 1120X**, Amended U.S. Corporation Income Tax Return, and Form 1118 with the Service Center where you filed the tax return on which you claimed the foreign tax credit to which the notice relates. You must give the following notification to the IRS:

1. **Identifying information:** (a) your name; (b) your address; (c) your EIN; and (d) the tax year or years that are affected by the redetermination of your U.S. tax liability.

2. **Foreign taxes paid or accrued (by you or on your behalf):**

a. Basic information: (i) the dates on which the foreign taxes were paid; (ii) the rate of exchange on each date the foreign taxes were paid; and (iii) the amount of foreign taxes paid on each such date (in foreign currency).

b. Additional information needed in cases where the redetermination is caused by:

(i) A refund of foreign tax: The amount of foreign taxes refunded (in foreign currency).

(ii) Foreign taxes when paid that differ from the accrued amounts claimed as credits because of fluctuation in the value of the foreign currency in which the foreign taxes were paid: (A) the dates on which the foreign taxes were accrued; (B) the rate of exchange on each date the foreign taxes were accrued; and (C) the amount of foreign taxes accrued on each such date (in foreign currency).

(iii) Foreign taxes when paid that differ from accrued amounts claimed as credits because you are assessed additional or less foreign tax: (A) the original amounts and information described in (2)(b)(i) above; (B) the amount of additional or reduced foreign tax (in foreign currency); and (C) the revised amounts and information described in (2)(b)(ii) above.

3. **Foreign taxes deemed paid or accrued under section 902 or section 960:**

a. Basic information: (i) the dates and amounts of any dividend distributions or other inclusions made out of E&P for the affected year or years; and (ii) the information described in 2 above, as applicable.

b. Additional information needed in the case of a redetermination:

(i) That was caused by the fact that you fall into the exception to Temporary Regulations section 1.905-3T(d)(2) because you have "a foreign tax adjustment that exceeds 2%" (described in Temporary Regulations section 1.905-3T(d)(4)(ii)): Include a complete factual description justifying the reasons for overaccrual of foreign tax;

(ii) For which pool adjustments and notification were required pursuant to Temporary Regulations sections 1.905-3T(d)(2)(ii)(B) and (C) and 1.905-3T(d)(2)(iii): Include a complete factual description justifying the reasons for the failure to attach the required notification or make the required adjustments.

If a foreign tax redetermination occurred with respect to foreign taxes deemed paid under section 902 or section 960 and you are not required to redetermine your U.S. tax liability, you must adjust the appropriate pool of foreign taxes and E&P in accordance with the rules outlined in Temporary Regulations section 1.905-3T(d)(2)(ii).

If an adjustment to the appropriate pool of foreign taxes and E&P is required, you must attach a notice of the adjustment to your tax return for the tax year during which the foreign tax redetermination occurs. You must provide the following information: (a) your name and EIN; (b) the foreign corporation's name, address, and EIN (if any); (c) the amount of any refunds of foreign taxes and the exchange rate as of the time of original payment of the refunded foreign taxes; (d) the amounts of unrefunded foreign taxes when paid and when accrued in foreign currency, the exchange rate for the accrual and payment dates of unrefunded foreign taxes, and the dollar amounts of unrefunded foreign taxes paid and accrued; and (e) the current balances of the pools of E&P and foreign taxes before and after the foreign tax redetermination. If you fail to attach the required notice, to provide the necessary information, or to make the required adjustments, you must provide notification of the foreign tax redetermination under Temporary Regulations section 1.905-4T. The IRS may, in its discretion, make a redetermination of your U.S. tax liability and subject you to the interest provisions of section 6601 and the penalty provisions of section 6689.

**Note:** Temporary Regulations section 1.905-3T(d)(2)(ii)(A) has been suspended, as well as that portion of Regulations section 1.905-3T(d)(2)(ii)(C) that refers to Regulations section 1.905-3T(d)(2)(ii)(A). These suspensions are effective for taxes deemed paid or accrued with respect to E&P of a foreign corporation accumulated in tax years beginning after December 31, 1986.

Pending the issuance of final regulations under section 905(c), redeterminations otherwise subject to those regulations sections must be accounted for through adjustment to the appropriate pools of E&P and foreign taxes in the manner described in Temporary Regulations section 1.905-3T(d)(3) and subject to the exceptions set forth in Temporary Regulations section 1.905-3T(d)(4). See Notice 90-26, 1990-1 C.B. 336, for details.

**Interest and penalties.**—Interest is generally computed on the deficiency or overpayment that resulted from the foreign tax redetermination based on the rules of sections 6601 and 6611 (and the regulations thereunder). See Temporary Regulations section 1.905-4T(c) for additional information.

If you do not comply with the notification requirements (which begin on page 3) within the time for filing specified above, you will be subject to the penalty provisions of section 6689 (and the related regulations).

#### M. Treaty-Based Return Positions

Corporations that "adopt a return position" (see Regulations section 301.6114-1(a)(2)) that any treaty of the U.S. (including, but not limited to, an income tax treaty, estate and gift tax treaty, or friendship, commerce and navigation treaty) overrides or modifies any provision of the Internal Revenue Code and thereby effects (or potentially effects) a reduction of any tax incurred at any time generally must disclose such return position on a statement (in the manner required in Regulations section 301.6114-1(d)). Attach the statement to Form 1118. See section 6114 and Regulations section 301.6114-1 for details.

Failure to attach the statement may result in a penalty of \$10,000.

## Specific Instructions

### Separate Limitation Boxes at Top of Page 1

The credit must be computed separately (using a separate Form 1118) for foreign taxes paid or accrued with respect to each separate limitation. See General Instruction C for descriptions of separate limitation categories.

**Note:** If you have dividends from more than one noncontrolled section 902 corporation, you must complete a separate Form 1118 for dividends received from each of those corporations. Each separate form must identify the name and country of incorporation of each noncontrolled section 902 corporation in the space provided. You must also complete part of an additional Form 1118 that shows the totals of all the separate Forms 1118 for each noncontrolled section 902 corporation. On this summary form, enter the word "Aggregate" in the space provided for "Name of Foreign Corporation" and complete Schedule A and Schedule B, Part I.

### Schedule A

In columns 2 through 7, report the gross income or (loss) from sources outside the U.S. with respect to the separate limitation for which you are completing the schedule. In columns 9 and 10, report the deductions applicable to gross income reported in columns 2 through 7. Be sure to **INCLUDE** in columns 2 through 7 and columns 9 and 10 the gross income and deductions that pertain to foreign branches and to the activities described in section 863(b).

See General Instruction D for general rules for computing separate limitation income or (loss) before adjustments.

**Column 1.**—Enter the two-letter codes (from page 8) of all foreign countries and U.S. possessions within which income is sourced and/or to which taxes were paid, accrued, or deemed paid.

**Column 2(a).**—Include the following types of "deemed dividends" (before applying the gross-up rules of section 78) that are attributable to income in the separate limitation with respect to which you are completing this schedule:

1. If you are a U.S. shareholder in a CFC, report all income you are deemed to have received under section 951(a)(1)(A) (see section 904(d)(3) and the "look-through rules" under General Instruction C9 for more information); and

2. If you are a U.S. shareholder in a Passive Foreign Investment Company (PFIC) and you receive any distributions in respect of stock in that PFIC, report all income you are deemed to have received under section 1291.

**Column 3(a).**—Report all other dividends (before gross-up) not included in column 2(a) from sources outside the U.S. with respect to the separate limitation for which you are completing the schedule.

**Note:** All dividends from a domestic corporation are of U.S. source, including dividends from a domestic corporation deriving 80% or more of its gross income from sources outside the U.S.

**Columns 2(b) and 3(b).**—Under section 78, taxes deemed paid by a domestic corporation under section 902 or section 960 with respect to distributions by a foreign corporation must be included in income as dividend gross-up. (See Regulations section 1.960-3(b) for exceptions.)

**Column 4.**—Enter all interest received from foreign sources. See section 861(c) for the treatment of interest from a domestic corporation that meets the foreign business requirement.

**Column 6.**—Include gross income, whether in the form of compensation, commissions, fees, etc., derived from the performance of technical, managerial, engineering, construction, scientific or similar services outside the United States. **INCLUDE** gross income from services performed through a foreign branch.

**Column 7.**—Include all other gross income from sources outside the U.S. with respect to the separate limitation for which you are completing the schedule. **INCLUDE** "all other" gross income of foreign branches and "all other" gross income to which the rules of section 863(b) apply. Attach a schedule identifying the gross income by type and by the foreign country or U.S. possession from which it was sourced.

**Column 9(d).**—Include all other deductions definitely allocable to income from sources outside the U.S. (dividends, interest, etc.) with respect to the separate limitation for which you are completing the schedule. **INCLUDE** deductions allocable to income of foreign branches and section 863(b) income.

Include any reduction of foreign source net capital gain (as described in General Instruction D(2)).

**Column 10.**—Section 862(b) provides that a ratable part of expenses, losses, and other deductions that cannot be definitely allocated to some item or class of gross income shall be deducted from separate limitation gross income from sources outside the U.S. in arriving at separate limitation income or (loss) before adjustments. Report in column 10 only the apportioned share that relates to gross income reported in columns 2 through 7.

### Schedule B

#### Part I—Foreign Taxes Paid or Accrued and Deemed To Have Been Paid

Report only foreign taxes paid, accrued, or deemed paid with respect to the separate limitation for which Form 1118 is being completed.

**Column 1.**—Generally, you claim the foreign tax credit for the tax year in which the taxes were paid or accrued, depending on the method of accounting you used. However, if you use the cash method of accounting, you may make an election under section 905(a) to claim the credit on the basis of accrued taxes. If you make the election, you must compute the foreign tax credit for all subsequent tax years on the same basis and the credits are subject to the redetermination provisions of section 905(c).

If you claim a credit for taxes accrued, show both the date accrued and the date paid (if paid).

**Columns 2(a) through 2(h).**—Report all foreign tax 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 G for proof of credits required.

Include in column 2(d) foreign taxes paid or accrued on foreign branch taxable income to which the rules of section 863(b) apply. **Note:** Do not include these overlapping amounts in column 2(e).

#### Part II—Separate Limitation Foreign Tax Credit

**Line 6.**—To determine whether you must complete separate Schedule J, see the self-contained instructions on that schedule.

**Line 9.**—The foreign tax credit is allowed against your "regular tax liability" (as defined in section 26(b)) less the possessions corporation tax credit you determined under section 936. If you are a

Form 1120 filer, this would be Schedule J, line 3 less Schedule J, line 4b.

### Part III—Summary of Separate Limitation Foreign Tax Credits From Part II, Schedule B of Separate Forms 1118

Complete Schedule B, Part III on only one Form 1118. Enter the credits from Schedule B, Part II, line 11 of the separate Forms 1118 on lines 1 through 9, Part III.

**Line 11.**—See instructions for Schedule G, Line D.

## Schedule C

### Part I—Distributions From Post-1986 Earnings and Profits

**Column 2.**—Enter the applicable two-digit foreign country and U.S. possession codes from page 8.

**Column 3.**—Enter the foreign corporation's "post-1986 undistributed E&P" which is defined in section 902(c)(1) as the amount of the foreign corporation's E&P (computed in accordance with sections 964(a) and 986) accumulated in tax years beginning after 1986: (1) as of the close of the tax year of the foreign corporation in which the dividend is distributed, and (2) without reduction for dividends distributed during that tax year. **Note:** Report all amounts in your "functional currency" as defined in section 985(b).

**Column 4.**—Enter your "post-1986 foreign income taxes," which is defined in section 902(c)(2) as the sum of: (1) the foreign income taxes with respect to the tax year of the foreign corporation in which the dividend is distributed, and (2) the foreign income taxes with respect to prior tax years beginning after 1986, to the extent such foreign taxes were not deemed paid with respect to dividends distributed by the foreign corporation in prior tax years. **Note:** Report all amounts in U.S. dollars using the exchange rate rules specified in section 986(a).

**Column 7a.**—Report all dividends paid or deemed paid in your "functional currency" as defined in section 985(b).

**Column 7b.**—Report the column 7a amount translated into U.S. dollars at the "appropriate exchange rate" (as defined in section 989(b)). If your functional currency is the U.S. dollar, do not complete column 7b.

### Part II—Distributions From Pre-1987 Earnings and Profits

**Column 2.**—If the dividends are from the accumulated E&P of more than one tax year, the tax deemed to have been paid must be computed and shown on a separate line for each tax year. Enter for each tax year the year and month in which the tax year ended. For example, if you are computing deemed paid taxes with respect to distributions from a tax year that ended June 30, 1986, enter "8606."

**Column 3.**—Enter the applicable two-digit foreign country and U.S. possession codes from page 8.

**Column 4.**—For each line, enter the E&P for the tax year you indicated in column 2. **Note:** Foreign currency amounts must be translated to U.S. dollars using the applicable pre-1987 rules.

**Column 5.**—Enter the amount of foreign taxes paid or accrued on the E&P entered in column 4 for the tax year indicated in column 2. See instructions for Line E, Part II, Schedule G for information regarding reduction of foreign taxes for failure to furnish information required under section 6038.

**Column 8.**—Enter the amount of dividends: (1) paid or constructively distributed by the related foreign corporation; and (2) paid or deemed distributed by the DISC or former DISC to the domestic corporation.

For purposes of section 902, IRS may determine from which tax year's accumulated profits the dividends were paid.

## Schedule D

### Part I—Distributions From Post-1986 Earnings and Profits

**Columns 2, 3, 4, 7a, and 7b.**—Follow the instructions for the corresponding columns of Part I, Schedule C.

### Part II—Distributions From Pre-1987 Earnings and Profits

**Columns 2, 3, 4, 5, and 8.**—Follow the instructions for the corresponding columns of Part II, Schedule C.

## Schedule E

### Part I—Distributions From Post-1986 Earnings and Profits

**Columns 2, 3, and 4.**—Follow the instructions for the corresponding columns of Part I, Schedule C.

**Columns 5a and 5b.**—Follow the instructions for columns 7a and 7b, Part I, Schedule C.

### Part II—Distributions From Pre-1987 Earnings and Profits

**Columns 2, 3, 4, and 5.**—Follow the instructions for the corresponding columns of Part II, Schedule C.

**Column 6.**—Follow the instructions for column 8, Part II, Schedule C.

## Schedule F

Complete this schedule for each applicable separate limitation.

### Part I—Section 863(b)

Section 863(b) and the related regulations provide special rules for determining taxable income from sources outside the U.S. with respect to gross income derived partly within and partly outside the U.S. Enter the gross income and definitely allocable deductions for each foreign country as indicated.

**Note:** Foreign branch income and deductions to which the rules of section 863(b) apply must be included in Part I (not in Part II).

### Part II—Foreign Branches

Enter the gross income and definitely allocable deductions for each foreign country as indicated. Include, for each foreign branch, an income statement, balance sheet, and schedule of midyear remittances. **Note:** Foreign branch income and deductions to which the rules of section 863(b) apply must be included in Part I (not in Part II).

## Schedule G

Complete this schedule for each applicable separate limitation.

### Part I—Reduction of Taxes Under Section 901(j)

If the provisions of section 901(j) apply to a foreign country, taxes paid to that country may not be used in computing the foreign tax credit. The Secretary of State has prepared a list of the countries that are described in section 901(j)(2). As of the date these instructions were revised,

the list included the following countries: Afghanistan, Albania, Angola, Cambodia, Cuba, Iran, Iraq, Libya, North Korea, South Africa, Syria, and Vietnam. See Notice 88-47, 1988-1 C.B. 530, for a special rule for Panama. **Note:** Special rules apply to taxes paid or accrued on income derived from sources in South Africa. At the time these instructions went to print, the rules had not been finalized. See Pub. 553, Highlights of 1991 Tax Changes.

**Column 2.**—Enter the taxable income or (loss) for each foreign country as indicated. **Note:** Be sure to include all taxable income (and not just dividends).

**Column 3.**—Enter the foreign income tax paid, accrued, or deemed paid for each foreign country as indicated.

### Part II—Summary of Reductions of Taxes Paid, Accrued, or Deemed Paid

**Line A—Reduction of Taxes Under Section 901(e).**—This reduction applies only if a deduction for percentage depletion under section 613 was allowed with respect to any part of your "foreign mineral income" (as defined in section 901(e)(2)). Attach a separate schedule showing the computation (described in (a) and (b) below) of the reduction of tax with respect to foreign mineral income in accordance with Regulations section 1.901-3(a)(3)(iv).

The amount of any income, war profits, and excess profits taxes paid or accrued, or deemed paid during the tax year to any foreign country or U.S. possession with respect to foreign mineral income derived from sources within that country or possession must be reduced by the lesser of: (a) the amount of those foreign taxes minus the amount of U.S. tax computed under Chapter 1 of the Code with respect to that foreign mineral income, or (b) the amount of U.S. tax which would be computed under Chapter 1 of the Code with respect to that 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 that foreign mineral income. The reduction must be made on a country-by-country basis (Regulations section 1.901-3(a)(1)).

**Line D—Reduction of Taxes Due to International Boycott Provisions.**—If a person, or a member of a "controlled group" (as defined in section 993(a)(3)) that includes that person, agrees to participate in, or cooperate with, an international boycott, that person must file Form 5713, International Boycott Report. That person's foreign tax credit is affected as follows:

1. If the taxes specifically attributable to boycott operations can be determined, reduce the total taxes available for the foreign tax credit by entering these amounts from Form 5713, Schedule C, line 2b on Form 1118, Schedule G, Part II, Line D.

2. If the taxes specifically attributable to boycott operations cannot be determined, compute the reduction by multiplying the credit otherwise allowable by the international boycott factor (Form 5713, Schedule A, line 3) and enter the result on Form 1118, Schedule B, Part III, line 11.

For additional information, see Form 5713 and its separate instructions.

**Line E—Reduction of Taxes For Section 6038(c) Penalty.**—For each failure of a domestic corporation to furnish any return or any information in any return required under section 6038 by the prescribed date: (1) in the application of sections 902 and 960, all taxes paid or deemed paid by all foreign corporations controlled by that domestic corporation must be

reduced by 10%; and (2) in the application of section 901, all taxes paid or deemed paid (except taxes deemed paid under section 904(c) and taxes reduced in the application of sections 902 and 960) by that corporation must be reduced by 10%. If the failure continues for 90 days or more after the date of written notice by IRS to that domestic corporation, the reductions are 10%, plus 5% for each 3-month period or fraction thereof during which the failure continues after expiration of the 90-day period.

A penalty of \$1,000 is also imposed for failing to supply the information for each CFC within the time prescribed under section 6038. Additionally, if the required information is not submitted within 90 days after the IRS has mailed notice to the U.S. person, an additional \$1,000 penalty (per corporation) is charged for every 30 days that the information is not submitted. The increase in any penalty under section 6038(b)(2) may not exceed \$24,000. See section 6038(c)(3) for rules coordinating these penalties.

**Line F—Other Reductions of Taxes.**— Include on this line the reduction for withholding in excess of 5% for noncontrolled section 902 corporations and the reduction for foreign taxes on foreign oil related income of section 907(b).

## Schedule H

**Purpose of schedule.**—Schedule H is used to apportion deductions that are “not definitely allocable” among “statutory groupings.” The results of the schedule are used to determine foreign source taxable income (on Schedule A), which is used to determine your foreign tax credit limitation (on Schedule B). **Note:** *Schedule H is generally completed only once (unlike Schedule A; Schedule B, Parts I & II; Schedules C through G; and Schedule I, which are completed for each applicable separate limitation).*

### Part I—Research and Development Deductions

The rules regarding the apportionment of R&D deductions are set forth in Regulations section 1.861-8(e)(3) and Temporary Regulations section 1.861-14T. Generally, you may use either the Sales Method (columns (a)(i) through (a)(vi)) OR the Gross Income Method (columns (b)(vi) and (b)(vii)).

**Caution:** *If you are completing Schedule H for your first or second tax year beginning after August 1, 1989, and on or before August 1, 1991, see the “Two-Year Exclusive Apportionment Rules.”*

#### Column (a) Sales Method

Complete these columns only if you elect the sales method of apportioning R&D deductions described in Regulations section 1.861-8(e)(3)(ii). The regulations state that, under this method, R&D deductions are generally considered to be definitely related to all gross income reasonably connected with one or more of the 32 product categories based on the Standard Industrial Classification (SIC) system (rather than the income generated by the particular product that benefited from the research activity). Enter in the spaces provided the two-digit SIC Code numbers of the product lines to which the R&D deductions are considered to be related. (See Regulations section 1.861-8(e)(3) for more information about SIC Codes.) **Note:** *If you have more than two product lines, see the last paragraph of the Schedule H instructions regarding computer generated schedules.*

#### Columns (a)(i) and (a)(ii)

**Line 1.**—Enter the worldwide gross sales for the product lines.

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**Lines 3a through 3h.**—Enter the gross sales that resulted in gross income for each statutory grouping.

**Line 4.**—Add lines 3a through 3h. **Note:** *This total should be less than the total sales on line 1 because this line 4 total does not include the gross sales that give rise to gross income in the residual grouping.*

#### Columns (a)(ii) and (a)(iv)

**Line 1.**—Enter the total R&D deductions connected with the product lines.

**Line 2.**—In arriving at the line 2 amounts, you must first reduce your line 1 totals by the rules outlined in Regulations section 1.861-8(e)(3)(i)(B). These rules consider the fact that you will sometimes undertake R&D “solely to meet legal requirements imposed by a particular political entity with respect to improvement or marketing of specific products or processes” AND you would not reasonably expect the results of that research “to generate amounts of gross income (beyond de minimis amounts) outside a single geographic source.”

You must then further reduce your line 1 totals by the “exclusive apportionment” rules of Regulations section 1.861-8(e)(3)(ii)(A). Under these rules, 30% of your R&D deductions are “apportioned exclusively to the statutory grouping of gross income or the residual grouping of gross income, as the case may be, arising from the geographic source where the R&D activities which account for more than 50% of the amount of such deduction were performed.” If the 50% test is **not** met, then no part of the deduction is apportioned under these rules.

**Note:** *If you are completing Schedule H for your first or second tax year beginning after August 1, 1989, and on or before August 1, 1991, see the “Two-Year Exclusive Apportionment Rules” below.*

**Lines 3a through 3h.**—To determine the amount of R&D deductions to be apportioned to each statutory grouping, divide the gross sales apportioned to the statutory grouping by the worldwide gross sales for the product line and multiply the result by the R&D deductions to be apportioned. **Note:** *If you received dividends from more than one noncontrolled section 902 corporation, see the last paragraph of the Schedule H instructions regarding computer generated schedules.*

**Example 1:** To determine the amount to be entered on line 3a, column (a)(ii), you must:

1. Divide the amount you entered on line 3a, column (a)(i) by the amount you entered on line 1, column (a)(i); and

2. Multiply the result by the amount you entered on line 2, column (a)(ii).

**Example 2:** To determine the amount to be entered on line 3b, column (a)(iv), you must:

1. Divide the amount you entered on line 3b, column (a)(iii) by the amount you entered on line 1, column (a)(iii); and

2. Multiply the result by the amount you entered on line 2, column (a)(iv).

**Line 4.**—Add lines 3a through 3h. **Note:** *This total will generally be less than the total R&D deductions on line 2 because this line 4 total does not include the R&D deductions that are implicitly apportioned to the residual grouping.*

#### Column (b) Gross Income Methods

Complete these columns only if you elect one of the gross income methods of apportioning R&D deductions described in Regulations section 1.861-8(e)(3)(iii). Check the “Option 1” box if you use the option described in Regulations section

1.861-8(e)(3)(iii)(A). Check the “Option 2” box if you use the option described in Regulations section 1.861-8(e)(3)(iii)(B).

#### Column (b)(vi)

**Line 1.**—Enter your total gross income (excluding exempt income in accordance with Temporary Regulations section 1.861-8T(d)(2)).

**Lines 3a through 3h.**—Enter the gross income within each statutory grouping.

**Line 4.**—Add lines 3a through 3h.

**Note:** *This total will generally be less than the total gross income on line 2 because this line 4 total does not include the gross income that is implicitly apportioned to the residual grouping.*

#### Column (b)(vii)

**Line 1.**—Enter your total R&D deductions.

**Line 2.**—In arriving at the line 2 amount, reduce your line 1 total by the R&D deductions incurred solely to meet legal requirements. (See Regulations section 1.861-8(e)(3)(i)(B).)

**Note:** *Do not reduce your line 1 total by the “exclusive apportionment” rules of Regulations section 1.861-8(e)(3)(ii)(A) (as was permitted under the Sales Method).*

**Note also:** *If you are completing Schedule H for your first or second tax year beginning after August 1, 1989, and on or before August 1, 1991, see the “Two-Year Exclusive Apportionment Rules” below.*

**Lines 3a through 3h.**—To determine the amount of R&D deductions to be apportioned to each statutory grouping: (1) if you checked the Option 1 box, divide the gross income apportioned to the statutory grouping by your total gross income and multiply the result by the R&D deductions to be apportioned; or (2) if you checked the Option 2 box, enter the appropriate amount as described in Regulations section 1.861-8(e)(3)(iii)(B).

**Line 4.**—Add lines 3a through 3h.

**Note:** *This total will generally be less than the total R&D deductions you entered on line 2 because this line 4 total does not include the R&D deductions that are implicitly apportioned to the residual grouping.*

#### Two-Year Exclusive Apportionment Rules

If you are completing Schedule H for your first or second tax year beginning after August 1, 1989, and on or before August 1, 1991, the rules contained in section 864(f) will be substituted for the rules described above in completing the schedule with respect to your “qualified research and experimental expenditures” (defined in section 864(f)(2)). Generally, the rules contained in section 864(f) modify the rules described in the instructions for line 2, columns (a)(ii) and (a)(iv) (including a substitution of “64%” for “30%”) and are to be used for both the column (a) sales method and the column (b) gross income methods.

### Part II—Interest Deductions, All Other Deductions, and Total Deductions

#### Columns (a)(i) through (b)(iv)

Use these columns to apportion your interest deductions. The rules regarding the apportionment of interest deductions are outlined in Regulations section 1.861-8 and Temporary Regulations sections 1.861-8T through 1.861-13T. Columns (a) and (b) are subdivided into “Non-Financial Corporations” and “Financial Corporations.” (See Temporary Regulations section 1.861-11T(d)(4)(ii) for the definition of “financial corporations.”) Temporary Regulations section 1.861-11T(d)(4) explains that, for purposes of allocating interest deductions,

members of an affiliated group that are financial corporations must be treated as a separate affiliated group. Therefore, complete columns (a)(i) and (b)(iv) for members of your affiliated group that are "financial corporations" and columns (a)(i) and (b)(iii) for members of your affiliated group that are non-financial corporations.

#### Columns (a)(i) and (a)(ii)

**Line 1a.**—Enter the "average" of the total assets of your affiliated group. See Temporary Regulations section 1.861-9T(g)(2) for the definition of "average" for these purposes.

**Line 1b.**—Temporary Regulations section 1.861-10T(e) sets forth an exception to the general rule of fungibility for excess related party indebtedness. Enter on line 1b the portion of the assets included on line 1a that is characterized as excess related party indebtedness.

**Line 1c.**—Temporary Regulations section 1.861-10T lists other exceptions to the general rule of fungibility (such as qualified nonrecourse indebtedness and integrated financial transactions). Enter on line 1c the portion of all other assets that attract specifically allocable interest deductions.

**Line 1d.**—Enter the total of the exempt assets and "assets without directly identifiable yield" that are to be excluded from the interest apportionment formula as specified in Temporary Regulations sections 1.861-8T(d)(2) and 1.861-9T(g)(3).

**Lines 3a through 3h.**—For purposes of the apportionment of interest expense, the assets on line 2 are characterized as assets in one of the statutory groupings or as belonging to the residual grouping. The rules for the characterization of assets are set forth in Temporary Regulations sections 1.861-9T(g)(3), 1.861-12T(g)(2) and 1.861-12T(h)(2). On lines 3a through 3h, enter the value of the assets in each of the statutory groupings.

**Line 4.**—Add lines 3a through 3h. **Note:** *This total will generally be less than the total assets on line 2 because this line 4 total does not include the assets that are implicitly apportioned to the residual grouping.*

#### Columns (b)(iii) and (b)(iv)

**Line 1a.**—Enter the total interest deductions for the members of your affiliated group. Temporary Regulations section 1.861-9T(a) states that your total interest deductions include: (1) any expense that is currently deductible under section 163 (including original issue discount); and (2) "interest equivalents" (as defined in Temporary Regulations section 1.861-9T(b)) that are currently deductible. Temporary Regulations section 1.861-9T(c) lists the sections that disallow or suspend interest deductions or that require the capitalization of interest deductions.

**Line 1b.**—Enter the interest deductions associated with the assets on line 1b of columns (a)(i) and (a)(ii), respectively, that attract specifically allocable interest deductions under Temporary Regulations section 1.861-10T(e).

**Note:** *These interest deductions will be divided among the statutory groupings and will appear as a definitely allocable deduction in Schedule A, column 9(d).*

**Line 1c.**—Enter the interest deductions associated with the assets on line 1c of columns (a)(i) and (a)(ii), respectively, that attract specifically allocable interest deductions.

**Line 1d.**—Enter the total amount of interest deductions that are allowed transition relief under the Tax Reform Act of 1986 and under TAMRA. **Note:** *A portion of these interest deductions may be apportioned to the various statutory groupings. If so, it is to be included on lines 3a through 3h of these columns as explained below.*

**Lines 3a through 3h.**—To determine the amount of interest deductions to be apportioned to each statutory grouping, divide the assets apportioned to the statutory grouping by the total assets apportioned and multiply the result by the interest deductions to be apportioned. Add to this amount any interest deductions that are apportioned to this category under the transition rules referenced above in columns (b)(iii) and (b)(iv), line 1d.

**Example 1:** To determine the amount to be entered on line 3a, column (b)(iii), you must: (1) divide the amount you entered on line 3a, column (a)(i) by the amount you entered on line 2, column (a)(i); (2) multiply the result by the amount you entered on line 2, column (b)(iii); and

(3) add any amount that is apportioned to this category under the transition rules.

**Example 2:** To determine the amount to be entered on line 3b, column (b)(iv), you must: (1) divide the amount you entered on line 3b, column (a)(ii) by the amount you entered on line 2, column (a)(ii); (2) multiply the result by the amount you entered on line 2, column (b)(iv); and (3) add any amount that is apportioned to this category under the transition rules.

**Line 4.**—Add the amounts on lines 3a through 3h. **Note:** *This total will generally be less than the total interest deductions on line 2 because this line 4 total does not include the interest deductions that are implicitly apportioned to the residual grouping.*

#### Column (c)

Complete this column to apportion all other deductions not definitely allocable (other than interest deductions and R&D deductions). Regulations section 1.861-8 and Temporary Regulations sections 1.861-8T and 1.861-14T describe the apportionment of these "other" deductions.

**Line 1a.**—Enter the total amount of "other" deductions. Examples of these "other" deductions include: stewardship expenses; legal and accounting expenses; and other expenses related to certain supportive functions such as overhead, general and administrative, advertising and marketing.

**Lines 3a through 3j.**—Enter the amounts apportioned to each statutory grouping.

**Line 4.**—Add lines 3a through 3j. **Note:** *This total will generally be less than the other deductions on line 2 because this line 4 total does not include the other deductions that are implicitly apportioned to the residual grouping.*

**Computer Generated Schedule H.**—You may submit computer generated Schedules H if they are in conformity with the IRS version of the schedule. For example, if you have more than two product lines (under the sales method of apportioning R&D deductions) **OR** if you received dividends from more than two noncontrolled section 902 corporations, you will have to expand the Schedule H to properly apportion deductions.

#### Schedule I and Schedule J

See the instructions contained on these separate schedules to determine if they must be completed and attached to Form 1118.

**Foreign Country and U.S. Possession Codes.**—Enter the following codes as requested in: Schedule A, column 1; Schedule C, Part I, column 2; Schedule C, Part II, column 3; Schedule D, Part I, column 2; Schedule D, Part II, column 3; Schedule E, Part I, column 2; and Schedule E, Part II, column 3.

Country	Code	Country	Code	Country	Code	Country	Code	Country	Code
Afghanistan . . . . .	AF	Colombia . . . . .	CO	Iceland . . . . .	IC	Montserrat . . . . .	MH	Spain . . . . .	SP
Albania . . . . .	AL	Comoros . . . . .	CN	India . . . . .	IN	Morocco . . . . .	MO	Sprattly Islands . . . . .	PG
Algeria . . . . .	AG	Congo . . . . .	CF	Indonesia . . . . .	ID	Mozambique . . . . .	MZ	Sri Lanka . . . . .	CE
American Samoa . . . . .	AQ	Cook Islands . . . . .	CW	Iran . . . . .	IR	Namibia . . . . .	WA	Sudan . . . . .	SU
Andorra . . . . .	AN	Coral Sea Islands Territory	CR	Iraq . . . . .	IZ	Nauru . . . . .	NR	Suriname . . . . .	NS
Angola . . . . .	AO	Costa Rica . . . . .	CS	Iraq-Saudi Arabia Neutral Zone . . . . .	IY	Navassa Island . . . . .	BO	Svalbard . . . . .	SV
Anguilla . . . . .	AV	Cuba . . . . .	CU	Ireland . . . . .	EI	Nepal . . . . .	NP	Swaziland . . . . .	WZ
Antarctica . . . . .	AY	Cyprus . . . . .	CY	Isle of Man . . . . .	IM	Netherlands . . . . .	NL	Sweden . . . . .	SW
Antigua and Barbuda . . . . .	AC	Czechoslovakia . . . . .	CZ	Israel . . . . .	IS	Netherlands Antilles . . . . .	NA	Switzerland . . . . .	SZ
Argentina . . . . .	AR	Denmark . . . . .	DA	Italy . . . . .	IT	New Caledonia . . . . .	NC	Syria . . . . .	SY
Aruba . . . . .	AA	Djibouti . . . . .	DJ	Ivory Coast . . . . .	IV	New Zealand . . . . .	NZ	Taiwan . . . . .	TW
Ashmore and Cartier Islands . . . . .	AT	Dominica . . . . .	DO	Jamaica . . . . .	JM	Nicaragua . . . . .	NU	Tanzania, United Republic of . . . . .	TZ
Australia . . . . .	AS	Dominican Republic . . . . .	DR	Jan Mayen . . . . .	JN	Niger . . . . .	NG	Thailand . . . . .	TH
Austria . . . . .	AU	Ecuador . . . . .	EC	Japan . . . . .	JA	Nigeria . . . . .	NI	Togo . . . . .	TO
Azores . . . . .	PO	Egypt . . . . .	EG	Jersey . . . . .	JE	Niue . . . . .	NE	Tokelau . . . . .	TL
Bahamas, The . . . . .	BF	El Salvador . . . . .	ES	Johnston Atoll . . . . .	JQ	Norfolk Island . . . . .	NF	Tonga . . . . .	TN
Bahrain . . . . .	BA	Equatorial Guinea . . . . .	EK	Jordan . . . . .	JO	Northern Ireland . . . . .	UK	Trinidad and Tobago . . . . .	TD
Baker Island . . . . .	FQ	Estonia . . . . .	EN	Juan de Nova Island . . . . .	JU	Northern Mariana Islands . . . . .	CO	Tromelin Island . . . . .	TE
Bangladesh . . . . .	BG	Ethiopia . . . . .	ET	Kenya . . . . .	KE	Norway . . . . .	NO	Trust Territory of the Pacific Islands . . . . .	PS
Barbados . . . . .	BB	Europa Island . . . . .	EU	Kingman Reef . . . . .	KQ	Oman . . . . .	MU	Tunisia . . . . .	TS
Bassas da India . . . . .	BS	Falkland Islands (Islas Malvinas) . . . . .	FA	Kiribati . . . . .	KR	Pakistan . . . . .	PK	Turkey . . . . .	TU
Belgium . . . . .	BE	Faroe Islands . . . . .	FO	Korea, Democratic People's Republic of (North) . . . . .	KN	Palmyra Atoll . . . . .	LQ	Turks and Caicos Islands . . . . .	TK
Belize . . . . .	BH	Fiji . . . . .	FJ	Korea, Republic of (South) . . . . .	KS	Panama . . . . .	PM	Tuvalu . . . . .	TV
Benin . . . . .	BN	Finland . . . . .	FI	Kuwait . . . . .	KU	Papua New Guinea . . . . .	PP	Uganda . . . . .	UG
Bermuda . . . . .	BD	France . . . . .	FR	Laos . . . . .	LA	Paracel Islands . . . . .	PF	Union of Soviet Socialist Republics . . . . .	UR
Bhutan . . . . .	BT	French Guiana . . . . .	FG	Latvia . . . . .	LG	Paraguay . . . . .	PA	United Arab Emirates . . . . .	TC
Bolivia . . . . .	BL	French Polynesia . . . . .	FP	Lebanon . . . . .	LE	Peru . . . . .	PE	United Kingdom . . . . .	UK
Botswana . . . . .	BC	French Southern and Antarctic Lands . . . . .	FS	Lesotho . . . . .	LT	Philippines . . . . .	RP	Uruguay . . . . .	UY
Bouvet Island . . . . .	BV	Gabon . . . . .	GB	Liberia . . . . .	LI	Pitcairn Islands . . . . .	PC	Vanuatu . . . . .	NH
Brazil . . . . .	BR	Gambia, The . . . . .	GA	Libya . . . . .	LY	Poland . . . . .	PL	Vatican City . . . . .	VT
British Indian Ocean Territory . . . . .	IO	Gaza Strip . . . . .	GZ	Liechtenstein . . . . .	LS	Portugal . . . . .	PO	Venezuela . . . . .	VE
Brunei . . . . .	BX	Germany . . . . .	GM	Lithuania . . . . .	LH	Puerto Rico . . . . .	RQ	Vietnam . . . . .	VM
Bulgaria . . . . .	BU	Ghana . . . . .	GH	Luxembourg . . . . .	LU	Qatar . . . . .	QA	Romania . . . . .	RO
Burkina Faso . . . . .	UV	Gibraltar . . . . .	GI	Macau . . . . .	MC	Reunion . . . . .	RE	Rwanda . . . . .	RW
Burma . . . . .	BM	Glorioso Islands . . . . .	GO	Madagascar . . . . .	MA	Romania . . . . .	RO	St. Christopher-Nevis . . . . .	SC
Burundi . . . . .	BY	Greece . . . . .	GR	Malawi . . . . .	MI	St. Helena . . . . .	SH	St. Pierre and Miquelon . . . . .	SB
Cambodia . . . . .	CB	Greenland . . . . .	GL	Malaysia . . . . .	MY	St. Vincent and the Grenadines . . . . .	VC	St. Vincent and the Grenadines . . . . .	VC
Cameroon . . . . .	CM	Grenada . . . . .	GJ	Maldives . . . . .	MV	San Marino . . . . .	SM	Sao Tome and Principe . . . . .	TP
Canada . . . . .	CA	Guadeloupe . . . . .	GP	Mali . . . . .	ML	Saudi Arabia . . . . .	SA	Senegal . . . . .	SG
Canary Islands . . . . .	SP	Guam . . . . .	GO	Malta . . . . .	MT	Senegal . . . . .	SG	Seychelles . . . . .	SE
Cape Verde . . . . .	CV	Guatemala . . . . .	GT	Marshall Islands . . . . .	RM	Sierra Leone . . . . .	SL	Singapore . . . . .	SN
Cayman Islands . . . . .	CJ	Guernsey . . . . .	GK	Martinique . . . . .	MB	Solomon Islands . . . . .	BP	Somalia . . . . .	SO
Central African Republic . . . . .	CT	Guinea . . . . .	GV	Mauritania . . . . .	MR	South Africa . . . . .	SF		
Chad . . . . .	CD	Guinea-Bissau . . . . .	GU	Mauritius . . . . .	MP				
Chile . . . . .	CI	Guyana . . . . .	GY	Mayotte . . . . .	MF				
China, Peoples Republic of . . . . .	CH	Haiti . . . . .	HA	Mexico . . . . .	MX				
Christmas Island (Indian Ocean) . . . . .	KT	Heard Island and McDonald Islands . . . . .	HM	Micronesia, Federated States of . . . . .	FM				
Christmas Island (Pacific Ocean) . . . . .	KR	Honduras . . . . .	HO	Midway Islands . . . . .	MQ				
Clipperton Island . . . . .	JP	Hong Kong . . . . .	HK	Monaco . . . . .	MN				
Cocos (Keeling) Islands . . . . .	CK	Howland Island . . . . .	HQ	Mongolia . . . . .	MG				
		Hungary . . . . .	HU						