Instructions for Schedule P (Form 1120-F)

List of Foreign Partner Interests in Partnerships

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

Future Developments
For the latest information about developments related to Schedule P (Form 1120-F) and its instructions, such as legislation enacted after they were published, go to IRS.gov/Form1120F.

General Instructions

Purpose of Schedule
Schedule P (Form 1120-F) is used to identify and reconcile the foreign corporation's directly held partnership interests with the distributive shares of partnership effectively connected income (ECI), or expenses allocable to ECI, and the foreign corporation's effectively connected outside tax basis in each interest. Part I is used to identify all partnership interests the foreign corporation directly owns that give rise to a distributive share of income or loss that is effectively connected with a trade or business within the United States of the foreign corporation. Part II is used to reconcile the foreign corporation's distributive share of ECI and allocable expenses with the total income and expenses reported to it on Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc. Part III is used as follows. The corporation's outside basis in its directly held partnership interests that include ECI in the corporation's distributive share is apportioned between ECI and non-ECI under Regulations section 1.884-1(d)(3) to determine the average value treated as a U.S. asset for interest expense allocation purposes under Regulations section 1.882-5. The apportionment of the outside basis to ECI as of the current and prior tax year end is also taken into account in determining the average apportioned value included in the corporation's U.S. assets for purposes of computing the branch profits tax. The U.S. assets and partner share of booked liabilities and interest expense of the partnership are also coordinated with the interest expense allocation computations reported on Schedule I (Form 1120-F).

If you disposed of all or a portion of any partnership interest listed on Schedule P during your taxable year, then you may have to report any gain or loss from that disposition on Form 1120-F. See section 864(c)(8) and item HH on page 3 of Form 1120-F.

Who Must Complete Schedule P
A foreign corporation that is directly or indirectly engaged in trade or business within the United States is required to file Schedule P (Form 1120-F) for all directly owned partnership interests that have ECI, or expenses allocable to ECI, included in its distributive share of income reported to the corporation on Schedule K-1 (Form 1065). If the foreign corporation treats any of its distributive share of partnership net income or loss from a partnership that is not engaged in trade or business within the United States as ECI with another trade or business of the corporation, the corporation's entire distributive share of items of income and expense from any such partnership must also be reconciled between ECI and non-ECI and reported on Schedule P.

A foreign corporation may be engaged in a trade or business within the United States either directly through its own non-partnership related activities or indirectly, including through the activities of one or more partnerships in which the corporation owns a partnership interest. In addition, if a corporation owns an interest in a partnership that is itself deemed engaged in trade or business within the United States as a result of the partnership's own directly or indirectly owned interest in another partnership (“lower-tier partnership”), the corporation is also treated as engaged in trade or business as a result of its direct and indirect ownership of such interests. See section 875(1). The foreign corporation's distributive share of income from a domestic partnership and certain foreign partnership interests is reported to the partner on Schedule K-1 (Form 1065), together with the corporation's allocable share of partnership liabilities. If the partnership is engaged in trade or business directly or indirectly through a lower-tier partnership and has ECI to report in the distributive share of a foreign partner, it is responsible for making quarterly installment payments of withholding tax under section 1446 on the foreign partner's distributive share of estimated ECI under section 1446 and reporting the amounts to the foreign partner for the tax year on Form 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax. If a partnership is required to report effectively connected taxable income on Form 8805 to a foreign corporate partner, the corporation must reconcile its entire distributive share of income and expenses reported on Schedule K-1 (Form 1065) from such partnership, instead of on Form 8805 and report it on Schedule P (Form 1120-F).

Exceptions From Filing Schedule P
Do not file Schedule P if none of the distributive shares from any of the corporation's partnership interests include ECI, or expenses allocable to ECI. A foreign corporation that has ECI reported to it from a partnership is not required to file Schedule P (Form 1120-F) if none of the corporation's business profits including its ECI from the partnership are attributable to a U.S. permanent establishment pursuant to an applicable income tax treaty and the corporation files a protective tax return under Regulations section 1.882-4(a)(3)(vi).

Protective election on Schedule P.
See Protective election, later, for instructions for making a protective partnership outside basis apportionment election with a protective return filing of Form 1120-F.

When and Where To File
Attach Schedule P (Form 1120-F) to the foreign corporation's Form 1120-F income tax return. See the Instructions for Form 1120-F for the time, place, and manner for filing the foreign corporation's income tax return.

Other Forms and Schedules Related to Schedule P
Form 1120-F, Section II. Gross ECI includible in the corporation's distributive share is reportable on Form 1120-F, Section II, lines 3 through 10, in the applicable category of income. Expenses
Form 8990, Limitation on Business Interest Expense Under Section 163(j). Business interest expense includes any interest paid or accrued on indebtedness properly allocable to a trade or business. Business interest expense is generally limited to the sum of business interest income, 30% of the adjusted taxable income, and floor plan financing interest. Form 8990 is required, unless an exception for filing is met. For more information, see section 163(j), Form 8990, and the Instructions for Form 8990.

Part I—List of Foreign Partner Interests in Partnerships

In Part I, list the name, address, and employer identification number (EIN) of each directly owned partnership interest that has ECI included in the partner’s distributive share on Schedule K-1 (Form 1065). Also include in the list of partnership interests any interest in a partnership that is not engaged in trade or business within the United States if the corporation treats some or all of its distributive share as ECI with a separate trade or business of its own within the United States. Do not report on Schedule P any indirectly owned partnership interests (lower-tier partnership interests) that have income effectively connected with the lower-tier partnership’s own trade or business within the United States unless the corporation owns a direct interest in the lower-tier partnership. The corporation’s distributive share of ECI earned through lower-tier partnership interests is includible on the Schedule K-1 (Form 1065) reportable to the corporation by the partnership in which the corporation owns a direct interest, whether or not the directly owned partnership interest is treated as a U.S. trade or business directly connected with the activities of the partnership.

Part II—Foreign Partner Income and Expenses: Reconciliation to Schedule K-1 (Form 1065)

Part II reconciles the partner’s ECI and non-ECI to its Schedule K-1 (Form 1065) distributive share from each partnership listed in Part I. The Schedule K-1 lines are grouped for reconciliation of their income and expense in the following manner.

• Schedule P, lines 1 through 5: ECI and non-ECI reconciliation of income and non-interest expenses from Schedule K-1 (Form 1065), lines 1 through 3.
• Schedule P, lines 6 through 10: Reconciliation of other income and other non-interest expenses from Schedule K-1 (Form 1065).
• Schedule P, lines 11 and 12: Total gross income and total gross ECI from Schedule K-1 (Form 1065).
• Schedule P, lines 13 through 15c: Reconciliation of total interest expense from Schedule K-1 (Form 1065).

Note. The information needed to complete Schedule P (Form 1120-F) generally should appear on a statement attached to the partner’s Schedule K-1 (Form 1065).

Lines 1 Through 5. ECI and Non-ECI Reconciliation of Income and Non-Interest Expenses

Line 1. Net income (loss). Enter on line 1 the combined total income (loss) from Schedule K-1 (Form 1065), Part III, line 1, Ordinary business income (loss); line 2, Net rental real estate income (loss); and line 3, Other net rental income (loss). Enter the combined amount in the column in Part II which corresponds to the partnership listed in Part I. The amount

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Lines 2 and 3. Gross income. Enter on line 2 the total gross income included in Schedule P (Form 1120-F), line 1. On line 3, enter the amount of ECI included in the gross income reported on line 2. If all of the gross income reported on line 2 is ECI, then report the same number on line 3.

Lines 4 and 5. Non-interest expense. Enter on line 4 the total amount of non-interest expense included on line 1. On line 5, enter the amount of non-interest expense included on line 1 that is allocated and apportioned to gross ECI. Include on line 4 (and line 5, if applicable) guaranteed payments made by the partnership that are included in the combined net income (loss) reported on line 1. Interest expense included in line 1 is subject to allocation under Regulations section 1.882-5 and is reported in a separate grouping of the corporation's distributive share of all interest expense on Schedule P (Form 1120-F), line 13.

Lines 6 Through 10. Other Gross Income and Other Non-Interest Expenses

Line 6. Net income (loss). Enter on line 6 the combined total income (loss) from Schedule K-1 (Form 1065) that is not included on lines 1 through 3 of the Schedule K-1 (and is not reportable on line 2 of Schedule P).

Lines 7 and 8. Other gross income. Enter on line 7 all other gross income from Schedule K-1 (Form 1065) that is not included on lines 1 through 3 of the Schedule K-1 (and is not reportable on line 2 of Schedule P). On line 8, enter the amount of gross income from line 7 that is allocated and apportioned to ECI.

Lines 9 and 10. Other non-interest expenses. Enter on line 9 all other non-interest expense from Schedule K-1 (Form 1065) that is not included on lines 1 through 3 of the Schedule K-1 (and is not reportable on lines 4 and 5 of Schedule P). On line 10, enter the amount of non-interest expense from line 9 that is allocated and apportioned to ECI. Include on line 9 (and line 10, if applicable) guaranteed payments made by the partnership that are not included on lines 4 and 5.

Lines 11 and 12. Summary of Gross Income

Line 11. Total gross income. Enter on line 11 the sum of the gross income amounts entered on line 2 and line 7. The amount on line 11 is the total gross income from Schedule K-1 (Form 1065).

Line 12. Total gross effectively-connected income. Enter on line 12 the sum of the ECI amounts entered on lines 3 and 8. The amount on line 12 is the total gross ECI from Schedule K-1 (Form 1065).

Lines 13 Through 15c. Interest Expense Reconciliation

Enter on line 13 the amount of interest expense included in the net income (loss) on lines 1 through 3 of Schedule K-1 (Form 1065) and in the net income (loss) reported on line 1 of Schedule P (Form 1120-F). On line 14, enter the sum of the other interest expense reported on Schedule K-1 (Form 1065), lines 13 and 18.

Note. If interest expense is included on any line of Schedule K-1 (Form 1065) other than line 1, 2, 3, 13, or 18, attach a statement indicating the line the interest is included on and reclassify the interest expense reported on such other line to Schedule K-1 (Form 1065), line 13 or line 18, as appropriate, for purposes of reporting the reclassified amount on line 14 of Schedule P. The reclassification will require an adjustment to such other line to prevent double counting of total expenses.

Line 15a. Total interest expense. Add lines 13 and 14 and enter the result on line 15a. This amount is the corporation's total distributive share of interest expense from Schedule K-1 (Form 1065) that is subject to allocation under Regulations section 1.882-5.

Line 15b. Direct interest expense allocation. On line 15b, enter the amount of interest expense included in line 15a that is directly allocable to ECI under Regulations section 1.882-5(a)(1)(ii)(B) and the applicable requirements of Temporary Regulations section 1.881-10T(b) or (c). The amount entered on line 15b is also included on Schedule I (Form 1120-F), line 22.

Line 15c. U.S.-booked interest expense of the partnership. Subtract line 15b from line 15a and enter the amount on line 15c. The portion of this expense amount that arises from U.S.-booked liabilities is required to be reported on Schedule I (Form 1120-F), line 9, column (b). See Regulations section 1.882-5(d)(4). A portion of the line 15c amount is also taken into account on Form 1120-F, Section III, Part II, line 8, in determining the corporation's branch interest under Regulations section 1.884-4(b).

Part III—Foreign Partner’s Average Outside Basis Under Regulations Sections 1.882-5(b) and 1.884-1(d)(3)

Report in Part III the corporation's outside basis for each partnership interest identified in Part I of this Schedule P (Form 1120-F) for purposes of determining the amount the corporation includes as a U.S. asset in Step 1 of the interest expense allocation under Regulations section 1.882-5. The corporation's outside basis in its partnership interests reported on Schedule P is determined and adjusted under the rules applicable to the determination of the corporation's outside basis in the partnership for branch profits tax purposes under Regulations section 1.884-1(d)(3), except that the amounts entered on lines 16 through 20 are the average values rather than the determination dates used under the section 884 regulations for branch profits tax purposes. If the corporation is not exempt from the branch profits tax under an applicable income tax treaty, attach a statement showing the determination of the corporation's outside basis in accordance with the requirements of lines 16 through 20 for an averaging period that shows the apportioned outside basis for the beginning and ending determination dates of the corporation's tax year. See also section 163(j) for rules on how the trade or business interest limitation may affect outside basis.

Line 16. Section 705 outside basis. Enter on line 16 the corporation's average value of the outside basis (otherwise determined under section 705) of the partnership in the column which corresponds to the line in Part I on which the partnership interest is listed. The average value is determined using the most frequent averaging period for which data is reasonably available. See Regulations sections 1.882-5(b)(3) and 1.882-5(c)(2)(iv).

Line 17. Partner liabilities included in the corporation's outside basis. The corporation's outside basis reported on line 16 is adjusted on line 17 to conform the amount of liabilities the corporation includes in the determination of its outside basis to the proportionate amount of the corporation's distributive share of interest

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expense with respect to the partnership’s liabilities. This adjustment is made only for purposes of determining the corporation’s outside basis included in the interest expense allocation and branch profits tax computations. The adjustment is not made for other federal income tax purposes such as for determining the corporation’s gain or loss from disposition of the partnership interest.

**Line 17a. Adjustment for directly allocable interest.** The outside basis is reduced by the average amount of liabilities that give rise to directly allocable interest expense in accordance with Regulations section 1.882-5(a)(1)(ii)(B). Enter the portion of the partnership liability that is subject to the direct interest expense allocation rules under Temporary Regulations section 1.861-10T(b) or (c) and is subject to exclusion from the determination of the corporation’s average U.S. asset values under Regulations section 1.882-5. See Temporary Regulations section 1.861-10T(d).

**Line 17b.** Enter the average amount of the corporation’s share of all other partnership liabilities it otherwise takes into account under section 752 in determining its outside basis in its partnership interest.

**Line 18.** Enter the corporation’s average partnership liabilities, or portion thereof, for the year for which the corporation receives a distributive share of interest expense for the year. See Regulations section 1.884-1(d)(3)(v). Also, enter this line 18 amount on Schedule I (Form 1120-F), line 5, column (b). See Regulations section 1.884-1(d)(3)(i) for the elective requirements for apportioning outside basis on the income or asset method. For purposes of determining the proportion of the partnership interest that is a U.S. asset, a foreign corporation may elect separately for each partnership interest to use either the asset method or the income method described in Regulations sections 1.884-1(d)(3)(ii) and (iii). See the instructions for line 21 below. If the corporation does not timely elect either method in the first year the corporation has a distributive share of ECI from the partnership, the Director of Field Operations may make the election on behalf of the corporation. See Regulations section 1.884-1(d)(3)(v).

**Note.** The required timely filed election under Regulations section 1.884-1(d)(3)(iv) for apportioning outside basis between ECI and non-ECI also applies to lower-tier partnership interests that are not required to be identified and reconciled to Schedule K-1 (Form 1065) on Schedule P (Form 1120-F).

**Line 21. Outside basis election method.** Enter “income” or “asset” on line 21 to indicate the elective outside basis apportionment method used to determine the amount of the corporation’s outside basis in its partnership interests apportioned to ECI and reported on line 20. The allocation method is subject to a 5-year minimum period election that must be made in the first year the partner has a distributive share of ECI included in the income reported on Schedule K-1 (Form 1065). The elective method chosen must be used for both branch profits tax and interest expense allocation purposes during the same 5-year minimum period. See Regulations section 1.884-1(d)(3)(iv).

**Asset method.** In general, a partner’s interest in a partnership shall be treated as a U.S. asset in the same proportion that the sum of the partner’s proportionate share of all partnership assets is of the determination date bears to the sum of the partner’s proportionate share of all partnership assets as of the determination date. The proportion of U.S. assets to total assets of the partnership is determined as if the partnership were a foreign corporation engaged in trade or business within the United States. Generally, a partner’s proportionate share of a partnership asset is the same as its proportionate share of all items of income, gain, loss, and deduction that may be generated by the asset. See Regulations section 1.884-1(d)(3)(ii)(B) for non-uniform treatment of certain partnership items.

**Income method.** Under the income method, a partner’s interest in a partnership shall be treated as a U.S. asset in the same proportion that its distributive share of partnership ECI for the partnership’s tax year that ends with or within the partner’s tax year bears to its distributive share of all partnership income for that tax year.

**Protective election.** If the corporation files a protective tax return under Regulations section 1.882-4(a)(3)(vi), and the partnership is not engaged in trade or business within the United States or does not have business profits attributable to a U.S. permanent establishment, the corporation need not file Schedule P and report its distributive share of income and expenses with its Form 1120-F. However, if it is later determined that the corporation’s distributive share of partnership income is ECI with respect to a trade or business of the corporation, the corporation will have failed to make a timely income method or asset method election with respect to such partnership for outside basis apportionment purposes if no other election disclosure is made. To preserve the right to allocate and apportion its outside basis under a chosen method, the corporation may make a protective election by completing Part I, and Part III, line 21, of Schedule P, and including it with the protective return filing of Form 1120-F. The protective election is effective only for the year in which the protective election is also the first year in which the corporation’s distributive share is in fact ECI with a trade or business of the corporation within the United States. The corporation need not complete Part II, or Part III, lines 16 through 20, with the protective election.