

2011

Instructions for Schedule V (Form 1120-F)



Department of the Treasury
Internal Revenue Service

List of Vessels or Aircraft, Operators, and Owners

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

General Instructions

Purpose of Schedule

Schedule V (Form 1120-F) is used by a foreign corporation to report basic information for each vessel or aircraft with respect to which the corporation is subject to the 4% rate of tax on U.S. source gross transportation income (USSGTI) under section 887.

Who Must File

Foreign corporations that are subject to the 4% tax on their USSGTI under section 887 must complete Schedule V.

When and Where to File

Attach Schedule V (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 corporation's income tax return.

Definitions

The term **United States source gross transportation income (USSGTI)** means any gross income (without reduction by any deductions or losses) that is transportation income (as defined in section 863(c)(3)) to the extent such income is treated as from sources within the United States under section 863(c)(2)(A).

The term does not include transportation income which is:

- Not sourced under section 863(c)(2);
- Taxable as effectively connected with the corporation's trade or business in the United States pursuant to section 887(b)(4); or
- Taxable in a possession of the United States under a provision of the Code, as made applicable in such possession.

Note. Foreign corporations may derive USSGTI directly, from participation in a pool, joint venture, joint service arrangement, as a partner in a partnership, or as the beneficiary of a trust or estate.

The term **transportation income** (as defined in section 863(c)(3)) means any income derived from, or in connection with:

- The use (or hiring or leasing for use) of any vessel or aircraft, or

- The performance of services directly related to the use of any vessel or aircraft.

The term vessel or aircraft includes any container used in connection with a vessel or aircraft. However, the term transportation income **does not** include income from the disposition of vessels, containers, or aircraft.

The term **income derived from or in connection with, the use (or hiring or leasing for use) of any vessel or aircraft** means:

- Income derived from transporting passengers or property by vessel or aircraft;
- Income derived from hiring or leasing a vessel or aircraft for use in the transportation of passengers or property on the vessel or aircraft; and
- Income derived by an operator of vessels or aircraft from the rental or use of containers and related equipment (container related income) in connection with, or incidental to, the transportation of cargo on such vessels or aircraft by the operator. Persons other than an operator of a vessel or aircraft do not derive container related income. Such income is treated as rental income, not transportation income.

The term **income derived from or in connection with the performance of services directly related to the use of a vessel or aircraft** includes the following categories of income.

1. **On board services.** Income in this category is derived from services performed on board a vessel or aircraft in the course of the actual transportation of passengers or property aboard vessels or aircraft. Examples of income in this category include income from renting staterooms, berths, or living accommodations; furnishing meals and entertainment; operating shops and casinos; providing excess baggage storage; and income from the performance of personal services by individuals. The term also includes income derived from demurrage, dispatch, and dead freight.

2. **Off board services.** Income in this category is derived from services performed off board any vessel or aircraft by an operator of a vessel or aircraft, provided such services are incidental to the operation of vessels or aircraft by such operator. The term does not include income from services performed by persons other than an operator. Examples of off board services include:

terminal services such as dockage, wharfage, storage, lights, water, refrigeration, refueling and similar services; stevedoring and other cargo handling services; maintenance and repairs; and services performed as a travel or booking agent.

The term **operator** includes the actual operator of a vessel or aircraft, as well as a time or voyage charterer of such vessel or aircraft.

Specific Instructions

Important. All information reported on Schedule V must be in English. All amounts must be stated in U.S. dollars.

Throughout these instructions, when the pronouns "you" and "your" are used, they are used in reference to the foreign corporation filing Form 1120-F, U.S. Income Tax Return of a Foreign Corporation.

Columns A through D. Complete a separate column for each vessel or aircraft with respect to which you are subject to a 4% rate of tax under section 887. For example:

- If you were a bareboat lessor of vessels or aircraft during the tax year, complete a separate column for each vessel or aircraft you leased out during the tax year for which you derived USSGTI.
- If you earned income during the tax year from the operation of vessels or aircraft, including time or voyage charter hire, complete a separate column for each vessel or aircraft operated by you during the tax year for which you derived USSGTI.
- If you earned income during the tax year from providing services directly related to the use of vessels or aircraft, complete a separate column for each vessel or aircraft for which such services were performed and for which you derived USSGTI.

If you derive USSGTI subject to a 4% rate of tax under section 887 from more than 4 vessels or aircraft, attach separate sheets using the same size and format as this Schedule V.

Line 1. Enter the name of the vessel or type of aircraft.

Line 2. For each column, if you are completing the column for a vessel, enter the Lloyd's register number on line 2. If you are completing the column for an

aircraft, enter the registration number on line 2.

Line 3. For each column, if the answer to the question on line 3 is "Yes" and you operate the vessel or aircraft which is under a bareboat lease or sublease to you, attach to Schedule V the following items:

1. The name and address of the lessor of the vessel or aircraft; and
2. The term of the bareboat lease or charter and the method for calculating the rental portion of the payment.

Line 4. For each column, if the answer to the question on line 4 is "Yes" and you are the bareboat lessor of the vessel or aircraft, attach to Schedule V the following items:

1. The country of registration of the vessel or aircraft,
2. Name and address of each lessee or person chartering the vessel or aircraft from you,
3. The term of the lease,
4. The number of days during the tax year the vessel or aircraft was under lease, and
5. A description of the method used to determine the USSGTI from the leases for the vessel or aircraft, and the calculations used to apply this method (see the **Note** in the instructions for line 9 for examples of reasonable methods that may be used).

Line 5. Enter the name of the registered owner. If you are the registered owner, enter "Same as filer above" on line 5.

Line 6. Enter the employer identification number (EIN) or social security number (SSN) of the registered owner if known. If you are the registered owner, enter "Same as filer above" on line 6. If you are not the registered owner and you do not know the EIN or SSN of the registered owner, enter "Not known."

Line 7. Enter the name of the operator if known. If you are the operator, enter "Same as filer above" on line 7. If you are not the operator and you do not know the name of the operator, enter "Not known."

Line 8. Enter the EIN or SSN of the operator if known. If you are the operator, enter "Same as filer above" on line 8. If you are not the operator and you do not know the EIN or SSN of the operator, enter "Not known."

Line 9. For each column, enter the USSGTI the corporation derived with respect to the vessel or aircraft. See *Definitions* on page 1 for additional information.

Note. In determining the amount of USSGTI, the foreign corporation must establish the actual amount of USSGTI derived from a charter under a reasonable method. For example, where a vessel or aircraft is under charter, one reasonable method of determining the portion of such charter income which is USSGTI is to apply to such charter income the ratio of **(a)** the number of days

of uninterrupted travel on voyages or flights between the United States and the farthest point(s) where cargo or passengers are loaded en route to, or discharged en route from, the United States, to **(b)** the number of days in the smaller of the tax year or the particular charter period. When determining USSGTI, the number of days the vessel is located in United States waters for repairs or maintenance should not be included in either the numerator or in the denominator of the ratio.

Another reasonable method would be to use a ratio based on the USSGTI earned from the operation of the vessel or aircraft by the lessee-operator, compared with the total gross income of the lessee-operator from the operation of the vessel or aircraft during the smaller of the tax year or the term of the charter. However, an allocation based on the net income of the lessee-operator will not be considered reasonable for this purpose.

Important. A description of the method used to determine the USSGTI from the vessel or aircraft must be attached to this Schedule V.

Line 11. If the foreign corporation is claiming a treaty exemption on its USSGTI, enter the amount on line 11 and attach Form 8833, Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b).