



# Shareholder's Instructions for Schedule K-3 (Form 1120-S)

## Shareholder's Share of Income, Deductions, Credits, etc.—International (For Shareholder's Use Only)

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

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### Future Developments

For the latest information about developments related to Schedule K-3 (Form 1120-S) and the Shareholder's Instructions for Schedule K-3 (Form 1120-S), such as legislation enacted after they were published, go to [IRS.gov/Form1120S](https://www.irs.gov/Form1120S).

### What's New

Schedule K-3 is new for the 2021 tax year. This Schedule K-3 replaces, supplements, and clarifies the reporting of certain amounts formerly reported on Schedule K-1 (Form 1120-S), Part III, Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items, line 14 (Foreign Transactions). Schedule K-3 also replaces, supplements, and clarifies the reporting

of certain amounts formerly reported on Schedule K-1, Part III, line 17, Other information. The new format assists S corporations in providing you with the information necessary to complete your returns with respect to the international tax aspects of the Internal Revenue Code. For example, the new format provides information necessary for a shareholder that makes a section 962 election to figure its deemed paid foreign tax credit on Form 1118, Foreign Tax Credit—Corporations, and to figure their other foreign tax credit on Form 1116, Foreign Tax Credit (Individual, Estate, or Trust), respectively.

### General Instructions

The Shareholder's Instructions for Schedule K-1 (Form 1120-S) generally apply to the Schedule K-3, including instructions under *Inconsistent Treatment of Items* and *Errors*. These instructions provide additional instructions with respect to Schedule K-3.

### Purpose of Schedule K-3

Schedule K-3 reports items of international tax relevance from the operation of an S corporation. You must include this information on your tax or information returns. See separate parts for specific instructions. You only need to use the schedules that are applicable to you.

See the *Purpose of Schedule K-1*, *Inconsistent Treatment of Items*, and *Errors* sections of the instructions for the Schedule K-1 (Form 1120-S) for instructions that are equally applicable with respect to the Schedule K-3. The S corporation reported items based on the information known to it, and the actual treatment of the items with respect to the shareholder may differ if any assumptions made by the S corporation are incorrect (such as ownership threshold levels and relatedness

determinations). In such cases, the shareholder must treat the items according to the shareholder's actual facts and file a Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), to identify and explain the inconsistency.

### How To Use Schedule K-3

**Reporting currency.** All amounts are reported in U.S. dollars except where otherwise specified.

### References to other forms.

References in these instructions to Form 1040, U.S. Individual Income Tax Return, are intended, if applicable, to include Form 1040-SR, U.S. Tax Return for Seniors, as well as other tax returns for noncorporate partners such as Form 1041, U.S. Income Tax Return for Estates and Trusts.

**Uses of the parts of Schedule K-3, in general.** The following are brief descriptions of each part of Schedule K-3. Detailed information is provided in *Specific Instructions*.

**Part I.** Used to determine any international tax items not reported elsewhere on Schedule K-3 (Form 1120-S).

**Part II.** Used to determine your share of S corporation income and loss by source and separate category of income for purposes of the foreign tax credit limitation. Shareholders will use the information to figure a foreign tax credit on Form 1116 or 1118.

**Part III.** Used to determine the allocation and apportionment of research and experimental (R&E) expense and interest expense for purposes of the foreign tax credit limitation. Also use this part to determine your share of the S corporation's creditable foreign taxes paid or accrued. Shareholders will use

the information to figure a foreign tax credit on Form 1116 or 1118.

**Part IV.** Used, in combination with other information known to you, such as information reported on Schedule P (Form 5471), Information Return of U.S. Persons With Respect to Certain Foreign Corporations, to determine your share of distributions by foreign corporations to the S corporation that are attributable to previously taxed earnings and profits (PTEP) in your annual PTEP accounts with respect to the foreign corporations (which are excluded from your gross income) or non-previously taxed earnings and profits (E&P), and the amount of foreign currency gain or loss on the PTEP that you are required to recognize under section 986(c). Use the information to figure and report the dividends and foreign currency gain or loss on Form 1040.

**Part V.** Used to determine your income inclusions under sections 951(a) and 951A if you are a U.S. shareholder of any of the listed CFCs. Shareholders will use the information to complete Form 8992, U.S. Shareholder Calculation of Global Intangible Low-Taxed Income (GILTI), and Form 1040 with respect to subpart F income inclusions, section 951(a)(1)(B) inclusions, and section 951A inclusions.

**Part VI.** Used to complete Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, and to provide information required to determine your inclusion with respect to the passive foreign investment company (PFIC).

**Part VII.** Used to determine your deemed paid taxes on inclusions under section 951A or 951(a)(1). Shareholders making a section 962 election will use the information to figure a deemed paid foreign tax credit on Form 1118.

## Specific Instructions

### Identifying Information

**Item E—Part applicability.** The S corporation checked the “Yes” box to indicate the applicable parts of Schedule K-3.

The S corporation checked the “No” box to indicate the inapplicable parts of Schedule K-3.

### Part I. Shareholder's Share of Corporation's Other Current Year International Information

This part reports your information for international tax items not reported elsewhere on the Schedule K-3.

**Box 1. Gain on personal property sale.** In general, income from the sale of personal property is sourced according to the residence of the seller. See section 865. If the S corporation sells non-depreciable personal property (other than inventory and certain intangible property), you, the shareholder, are treated as the seller. Therefore, you will need to determine the source of the gain reported on Part II, line 1, column (f). In general, if you are a U.S. citizen or resident alien individual, the gain is U.S. source. However, a U.S. citizen or resident alien individual with a tax home (section 911(d)(3)) in a foreign country is treated as a nonresident if an income tax of at least 10% is imposed by and paid to a foreign country regarding such sale. See section 865(g)(2).

If the S corporation checked box 1 on Part I, use the information attached to Schedule K-3 to determine if a foreign country imposed a tax of at least 10% or more on the gain from each sale. If so, and you have a tax home in a foreign country, such gain is foreign source income and reported on Form 1116. For more information, see [Column \(f\). Sourced by shareholder](#), later.

**Box 2. Foreign oil and gas taxes.** A separate foreign tax credit limitation is applied with respect to foreign oil and gas taxes. See section 907(a) and Regulations section 1.907(a)-1 for details. If the S corporation had such taxes, it checked box 2 and attached a partially completed Schedule I (Form 1118), to Schedule K-3. You are not required to complete Form 1118; rather, use the partially completed Schedule I and the associated instructions to complete Form 1116, Part III, line 12, for the applicable reduction for individuals.

**Box 3. Splitter arrangements.** Foreign taxes with respect to a foreign tax credit splitting event are suspended until the related income is taken into account by the taxpayer. See section 909. There is a foreign tax credit splitting event with respect to foreign taxes of a payor if in connection with a splitter arrangement the income is, or will be taken into account by a covered person. See Regulations section

1.909-2(a). A covered person, as defined in Regulations section 1.909-1(a)(4), includes, for example, any entity in which the payor holds, directly or indirectly, at least a 10% ownership interest (determined by vote or value). A payor, as defined in Regulations section 1.909-1(a)(3), includes, for example, a person that takes foreign income taxes paid or accrued by a partnership into account pursuant to section 702(a)(6).

If the S corporation checked box 3 on Part I, it attached a statement that separately identifies any arrangement, along with your share of the taxes paid or accrued in connection with the arrangement in which the S corporation participates that would qualify as a splitter arrangement under section 909. The box should be checked only if the S corporation knows, or has reason to know an entity that took into account related income from the arrangement is a covered person with respect to one or more shareholders. For example, you are a payor of a foreign tax if you take into account the foreign taxes paid or accrued by the S corporation under section 702(a)(6). If the S corporation wholly owns a reverse hybrid (as defined in Regulations section 1.909-2(b)(1)(iv)) and you own 10% or more (determined by vote or value) of the interest in the S corporation, the reverse hybrid is a covered person with respect to you. You cannot credit the foreign taxes paid or accrued by the S corporation with respect to the reverse hybrid until you or the S corporation takes into account the related income of the reverse hybrid. Until then, the taxes are suspended. The S corporation reported your share of the potentially suspended taxes as a result of the application of section 909 on Part III, Section 3, line 2E. Include on Form 1116, Part III, line 12, taxes suspended under section 909. If you are required to complete Form 5471 for a controlled foreign corporation (CFC), include in Schedule E-1, column (d), line 3b, taxes suspended under section 909.

If the S corporation checked box 3, and the statement indicates that the S corporation took into account the related income from the splitter arrangement, the taxes are partially or fully unsuspended depending on the amount of related income taken into account. Even though the taxes are unsuspended, in certain cases you might not be eligible to claim a credit for those taxes. To the extent you are

eligible to claim a credit for unsuspended taxes, these amounts may be claimed on Form 1118 or 1116, as applicable. If you are required to complete Form 5471, for a CFC, report the unsuspended taxes on Form 5471, Schedule E-1, column (d), line 3a.

In some cases, you may take into account related income directly that allows you to partially or fully unsuspend taxes, for example, by way of a subpart F or GILTI inclusion with respect to related income.



*There might be a splitter arrangement with respect to the shareholder even if the S corporation did not identify one, given that the S corporation did not have the information available to the shareholder. Therefore, you must identify such arrangement even if box 3 is not checked.*

**Box 4. Foreign tax translation.** If the S corporation checked box 4, it will attach a statement described in the instructions for Part III, Section 3.

**Box 5. High-taxed income.** If the S corporation checked box 5, you must determine if the passive income reported to you by the S corporation is treated as income in another separate category. Income received or accrued by a U.S. person that would otherwise be passive income is not treated as passive income if the income is determined to be high-taxed income. See section 904(d)(2)(B)(iii)(II). You must group your shares of passive income from a S corporation according to the rules in Regulations section 1.904-4(c)(3). However, the portion, if any, of the share of income attributable to income earned by an S corporation through a foreign qualified business unit (QBU) is separately grouped under the rules of Regulations section 1.904-4(c)(4). See Regulations section 1.904-4(c)(5)(ii). The S corporation should have attached Attachments 1 and/or 2. Use the attachments and your taxes on your other passive income (that is, passive income that is not attributable to your share of the S corporation's income) to determine if you need to assign passive income and the associated taxes to another separate category of income. You must allocate and apportion the shareholder's expenses to this passive income to determine if the income is treated as income in another separate category. This includes both your share of S corporation expenses and

expenses incurred by you directly. See the Instructions for Form 1116 for how to report your income and taxes reclassified under the high-taxed income rule.

**Box 6. Section 267A disallowed deductions.** If the S corporation checked box 6 in Part I and attached a statement titled "Section 267A Disallowed Deduction," prepare your tax return by taking into account that you are not allowed a deduction for any of the amounts listed in the statement. Thus, for example, do not claim as a deduction any amount reported on lines 41 through 43 of Schedule K-3, Part II, Section 2, to the extent listed in the statement as an amount for which a deduction is disallowed under section 267A.



*Box 6 and the accompanying statement describe only interest or royalty paid or accrued by the S corporation for which the S corporation knows, or has reason to know, that you are disallowed a deduction under section 267A.*

For information about section 267A, see FAQs for section 267A, [FAQs for Form 1065, Schedule B, Other Information, question 22](#).

**Items 7 through 9.** The S corporation should have attached to the Schedule K-1 or Schedule K-3 Form 5471; Form 8858, Information Return of U.S. Persons With Respect to Foreign Disregarded Entities (FDEs) and Foreign Branches (FBs); Form 5713, International Boycott Report; and other relevant international tax forms.

**Box 10. Shareholder loan transactions.** If this box is checked, the S corporation identified upstream or downstream S corporation loan transactions. See Regulations section 1.861-9(e)(8) and (9) for purposes of determining special rules regarding interest expense allocation and apportionment if you have such loan transactions with the S corporation.



*The shareholder may have additional shareholder loan transactions not identified by the S corporation due to information not known to the S corporation.*

**Box 11. Entity treatment for certain S corporations.** If this box is checked, the S corporation has made an election described in Notice 2020-69, 2020-39 I.R.B. 604, to be treated as owning

stock of a CFC within the meaning of section 958(a) for purposes of applying section 951A, and, therefore, the S corporation may have an income inclusion under section 951A that it reports on Schedule K-1, line 10, Other income (loss), and does not report in Schedule K-3, Part V.

**Box 12. Other international items.** If the S corporation has transactions, income, deductions, payments, or anything else that implicates the international tax provisions of the Internal Revenue Code and such items are not otherwise reported on this part or other parts of Schedules K-2 and K-3, the S corporation reported that information on an attachment and checked box 12.

## Parts II and III

Parts II and III report information you use to figure the foreign tax credit. In general, a U.S. individual, estate, or trust may claim a credit for taxes paid or accrued, and in some cases deemed paid, to foreign countries or U.S. possessions. The amount of foreign tax credit in a tax year is generally limited to the lesser of foreign taxes paid or accrued or U.S. tax on foreign source income. The limitation is figured by separate categories of foreign source income, including foreign branch category, passive category, and general category. A shareholder will use Form 1116 to figure its foreign tax credit, but, if the shareholder makes a section 962 election, it must also complete Form 1118 solely with respect to its computation of deemed paid credits for section 951(a) or section 951A inclusions. See the instructions for Forms 1116 and 1118, as well as Pub. 514, Foreign Tax Credit for Individuals, for a summary of the rules for determining the source and separate categories of income.

## Part II. Foreign Tax Credit Limitation

**Column (a). U.S. source.** Do not report amounts in this column on Form 1116 or 1118 unless you elect to resource such income under an applicable U.S. income tax treaty. See section 904(d)(6). See the instructions for Forms 1116 and 1118 for income resourced by treaty reported as a separate category of income.

**Columns (b) through (e). Foreign source.** Add the amounts reported in these columns to your other income



earned or received directly or through other pass-through entities in these separate categories and report the total amounts on the applicable Form 1116, Part I, or Form 1118, Schedule A.

**Exception.** If you are a less-than-10% limited partner and you do not hold your partnership interest in the ordinary course of your active trade or business, then any amounts reported on Schedule K-3, Part II, section 1 and Part III, Section 1, columns (b), (d), and (e), should be reported as passive category income. Deductions reported on Part II, section 2, columns (b), (d), and (e), should be reported as reducing passive category income. Similarly, any foreign taxes paid or accrued on foreign source income in Part III, Section 3, (b), (c), (e), and (f), should be assigned to passive category income. Finally, any amounts reported in Part III, Section 2, columns (b), (d), and (e) should be assigned to passive category income. See Regulations section 1.904-4(n)(1)(ii).

#### **Column (f). Sourced by shareholder.**

You must determine the source and separate category of the income reported in this column. The income in this column will generally be with respect to sale of personal property other than inventory, depreciable property, and certain intangible property sourced under section 865. This column might also include foreign currency gain on a section 988 transaction. If you are a U.S. citizen or resident, sales and gains reported in this column will generally be U.S. source income and not reported on Form 1116 or 1118 unless you elect to resource such income under an applicable income tax treaty. Also, the source of foreign currency gain or loss on section 988 transactions may be determined by reference to the residence of the QBU on whose books the asset, liability, or item of income or expense is properly reflected. See the Instructions for Form 1116 or 1118 and Pub. 514 for additional details.

### **Section 1. Gross Income**

**Lines 1 through 24.** Form 1118, Schedule A, requires a corporation to separately report certain types of gross income by source and separate category. Schedule K-3, Part II, lines 1 through 23, generally follow the separately reported types of gross income on Schedule A. Individuals must

follow the same sourcing rules, but Form 1116 only requires reporting of total gross income from foreign sources by separate category. Therefore, those required to file Form 1116 would report line 24, taking into account section 904(b)(2) and PTEP adjustments, by country on their Form 1116, Part I, line 1a. Because all gross income is reported on one line on the Form 1116, there is no need to specify other reporting lines for gross income below.

**Country code.** Forms 1116 and 1118 require the taxpayer to report the foreign country or U.S. possession with respect to which the gross income is sourced. Lines 1 through 24 report for each gross income item, on a separate line (A, B, or C), the two-letter code (from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes)) for the foreign country or U.S. possession within which the gross income is sourced. If a type of income is sourced from more than three countries, a statement is attached to expand Schedules K-2 and K-3, Part II, for that type of income to report the additional countries.

**Lines 7 and 8. Ordinary dividends and qualified dividends.** Some of the amounts reported on these lines may be attributable to PTEP in annual PTEP accounts that you have with respect to a foreign corporation and thus excludable from your gross income. See the Instructions for Form 1116 for additional information with respect to rules regarding capital gain rate differentials (as defined in section 904(b)(3)(D)) for qualified dividends.

**Lines 11 through 15 and 27 through 30. Capital gains and losses.** Section 904(b)(2)(B) contains rules regarding adjustments to account for capital gain rate differentials (as defined in section 904(b)(3)(D)) for any tax year. These rules apply to individuals and may require adjustments to the amounts on lines 11 through 15, which in turn affects the total amount on line 24. See the Instructions for Form 1116 for additional information. Report lines 27 through 30 on Form 1116, Part I, line 5, by separate category.

**Lines 16 and 46. Section 986(c) gain and loss.** These lines report the S corporation's share of a lower-tier pass-through entity's section 986(c) gain or loss, and the amount of section 986(c) gain or loss on distributions of PTEP sourced from the S corporation's annual PTEP accounts. You will need to determine your foreign currency gain or

loss under section 986(c) with respect to distributed PTEP sourced from annual PTEP accounts that you have with respect to a foreign corporation, using Part IV of the Schedule K-3.

The amount of foreign currency gain and loss that you report on Form 1040 will include your share of the S corporation's foreign currency gain or loss under section 986(c) and your own foreign currency gain or loss under section 986(c).

**Lines 18 and 48. Section 988 gain and loss.** The source of foreign currency gain or loss on section 988 transactions is generally determined by reference to the residence of the taxpayer or QBU on whose books the asset, liability, or item of income or expense is properly reflected. If the source of the foreign currency gain or loss is determined by reference to the residence of the taxpayer, the foreign currency gain and loss will be reported in column (f). For example, if you are a U.S. resident, such gain or loss is U.S. source and would not be reported on Form 1116.

**Line 19. Section 951(a) inclusions.** If you make a section 962 election, on Form 1118, add the amount reported on line 19 to your other section 951(a) inclusions and report the total on the Form 1118, Schedule A, column 3(a), by separate category.

**Line 21. Section 951A(a) inclusions.** If you make a section 962 election, on Form 1118, add the amount reported on line 21 to your other section 951A(a) inclusions and report the total on the Form 1118, Schedule A, column 3(a), by separate category.

**Line 24. Total gross income.** Add the amounts reported in rows A, B, and C (and additional rows, if applicable) to your other foreign source gross income from those countries, and enter the totals on Form 1116, Part I, line 1a, taking into account any section 904(b) adjustments for capital gains, as described above for lines 11 through 15 and 27 through 30, or PTEP adjustments, as described above for lines 7, 8, 16, and 46.

### **Section 2. Deductions**

#### **Lines 25 Through 54**

Form 1116 requires a taxpayer to separately report certain types of deductions and losses by source and separate category. Separate reporting is

required because each type of deduction may be allocated and apportioned according to a different methodology. See Regulations sections 1.861-8 through -20. For purposes of allocating and apportioning expenses, in general, a shareholder adds their share of the S corporation's deductions with other deductions incurred directly by the shareholder or through other pass-through entities. See Regulations section 1.861-8(e)(15). Individuals must generally follow the same expense allocation and apportionment rules, but Form 1116 only requires separate reporting of certain deductions. See Form 1116, Part I, lines 2 through 5.

**Line 32. R&E expenses.** Add the R&E expenses reported in column (f) to your other R&E expenses. After determining the portion of such expenses that are allocable to U.S. source income or foreign source income because they are performed predominantly in a particular geographic area, report the remaining R&E expense on Form 1116. See Regulations section 1.861-17(f).

**Line 38. Charitable contributions.** Charitable contribution deductions should not be reported on Form 1116 because such deductions are allocable to U.S. source income.

**Lines 39 and 40. Interest expense specifically allocable under Regulations sections 1.861-10 and -10T.** Report interest expense directly allocated under Regulations sections 1.861-10 and 1.861-10T on Part I, line 2, on Form 1116.

**Lines 41 through 43. Other interest expense.** On Form 1116, allocate and apportion the sum of the interest expense included on lines 41 through 43 in column (f) and report the allocated and apportioned amounts on the applicable separate category Form 1116, Part I, line 4b. Interest expense incurred by certain individuals, estates, and trusts is allocated and apportioned based on the categories of interest expense in sections 163 and 469: active trade or business interest, investment interest, or passive activity interest, adjusted for any interest expense directly allocated under Regulations section 1.861-10T. See Regulations section 1.861-9(e)(3) and Temporary Regulations section 1.861-9T(d)(1) and (3).

**Exception.** If you are a less-than-10% (including constructively)

shareholder, the S corporation's interest expense is directly allocated to your share of the S corporation's gross income based on the source and character of the income. If your S corporation interest is not held in the ordinary course of your active trade or business, all such income is passive category income. See Regulations section 1.861-9(e)(4)(i) for further guidance. On Form 1116, report such interest expense on the passive category Form 1116, Part I, line 4b. However, if the S corporation interest is held in the ordinary course of the shareholder's active trade or business, your share of the S corporation's interest expense is apportioned in accordance with your share of gross foreign source income in each separate category and gross U.S. source income from the S corporation. See line 24 for the source and separate category of the shareholder's share of gross income. Report the interest expense on the appropriate Form 1116.

**Exception.** See Regulations section 1.861-9(e)(8) and (9) for special rules concerning downstream and upstream S corporation loans that require a matching of related interest income to interest expense allocations.

**Exception.** See Regulations section 1.861-9T(d)(1) for an exception to the apportionment of interest expense when an individual's foreign source income (including income excluded under section 911) does not exceed \$5,000. Such interest expense may be allocated entirely to U.S. source income.

**Line 45. Foreign taxes deductible, but not creditable.** See the Instructions for Form 1116 for examples of foreign taxes deductible, but not creditable.

**Note.** Foreign taxes that are creditable (even if a shareholder chooses to deduct such taxes) are not reported as expenses on Part II. Do not claim a foreign tax credit on Form 1116 for amounts reported on line 45. However, you may claim a deduction for such taxes on the applicable form, including the Form 1040.

Creditable foreign taxes are reported on Part III, Section 3.

## Part III. Other Information for Preparation of Form 1116 or 1118

### Section 1. R&E Expenses Apportionment Factors

This section reports the information you need to allocate and apportion your R&E expense for foreign tax credit limitation purposes. R&E expenses are allocated and apportioned by the shareholder. See Regulations section 1.861-17(f)(1). Use this Section 1 to determine the R&E expense reported on Form 1116, Part I. See the Instructions for Form 1116.

**Line 1.** Add the amounts reported on line 1 by standard industrial classification (SIC) code to your other gross receipts to apportion your R&E expense.

**Line 2.** Add the amounts reported on line 2 to the shareholder's other R&E expense related to activity performed in the United States and the amount of R&E expense related to activity performed outside the United States by SIC code. See the Instructions for Form 1116 to determine the exclusive apportionment of the R&E expenses.

### Section 2. Interest Expense Apportionment Factors

This section includes the information you need to allocate and apportion your interest expense for foreign tax credit limitation purposes. This part is relevant for all shareholders except shareholders with less than a 10% S corporation interest. Use this Section 2 to determine the interest expense reported on Form 1116, Part I, line 4b. See the Instructions for Form 1116. Because the interest expense is reported on one line on the Form 1116, there is no need to specify additional reporting on the lines below.

**Lines 7 and 8.** The amounts reported on lines 7 and 8 are subsets of the amounts reported on line 6 representing the value of stock held by the S corporation in certain foreign corporations.

The amount reported on line 7 is the value of stock of the S corporation-owned specified 10%-owned foreign corporation that is not a CFC.

The amount reported on line 8 is the value of the stock in S corporation-owned CFCs.

### Section 3. Foreign Taxes

Section 3 reports your share of the foreign taxes paid or accrued by the S corporation by separate category and source.

**Line 1.** Report the taxes on line 1 in the applicable portions of Form 1116, Part II, for the applicable separate category of income. To complete these portions, refer to the statement attached to Schedule K-3, referred to earlier in the instructions with respect to Part I, box 4, with the following information.

- The dates on which the taxes were paid or accrued.
- The exchange rates used.
- The amounts in both foreign currency and U.S. dollars. See section 986(a).

**Note.** The shareholder takes its share of the S corporation's foreign taxes into account in the shareholder's tax year with or within which the S corporation's tax year ends, regardless of whether the shareholder or S corporation takes foreign taxes into account on the cash or accrual basis.

**Line 2.** Report the total reduction of taxes for each separate category of income on line 2 on Form 1116, Part III, line 12.

**Line 3.** Report the redetermined foreign taxes reported on line 3 on the Foreign Tax Redetermination Schedule of the Form 1116, and on an amended return, if required. See the Instructions for Form 1116 and Regulations sections 1.905-3 through -5 for additional information.

**Note.** If you are an accrual method taxpayer, generally you may not claim a credit for additional taxes reported on line 3 by the S corporation unless those taxes have been paid. See section 905(c)(2) and Regulations section 1.905-3(a).

### Part IV. Distributions From Foreign Corporations to Corporation

Use Part IV to determine your share of distributions by foreign corporations to the S corporation (with your share being reported in this Part IV) that are attributable to PTEP in your annual PTEP accounts with respect to the foreign corporations (which you exclude from your gross income) or non-previously taxed E&P, and the amount of foreign currency gain or loss on distributed PTEP that you are

required to recognize under section 986(c). The amount of foreign currency gain or loss on distributed PTEP that you are required to recognize under section 986(c) is equal to the excess of the U.S. dollar amount of the PTEP over your U.S. dollar basis in the PTEP. If the distributed PTEP was maintained in a functional currency other than the U.S. dollar, the U.S. dollar amount of the distributed PTEP is determined by translating the distributed PTEP into U.S. dollars using the spot rate on the date that the PTEP was distributed. See section 989(b)(1). Your U.S. dollar basis in the distributed PTEP is generally equal to the U.S. dollar amount of E&P that you previously included in gross income. See section 989(b)(1) and (3).

Also use Part IV, in combination with other information known to you, to claim and figure a foreign tax credit on Form 1116.

Include the U.S. dollar amount of E&P distributions from qualified foreign corporations in determining the amount of qualified dividends you report on line 3a of Form 1040. A foreign corporation identified as a qualified foreign corporation in column (j) that is a PFIC (as defined in section 1297) as to you for the tax year of the foreign corporation in which the distribution was made, or the preceding tax year, is not a qualified foreign corporation, regardless of whether it is indicated as such in column (j). See section 1(h)(11)(C)(iii)(I) and Notice 2004-70, 2004-44 I.R.B. 724.

Include the U.S. dollar amount of E&P distributions from a non-qualified foreign corporation in determining the amount of ordinary dividends you report on line 3b of Form 1040.

However, do not include the U.S. dollar amount of E&P distributions from a foreign corporation in determining the amount you report on line 3a or 3b of Form 1040 to the extent the distributions are attributable to PTEP in annual PTEP accounts that you have with respect to the foreign corporation, or attributable to E&P that are excludable from your gross income under section 1293(c). See Notice 2019-01, 2019-02 I.R.B. 275.

Include the amount of foreign currency gain or loss that you are required to recognize under section 986(c) in determining the amount to report on Form 1040.

If the S corporation received a distribution that is attributable to PTEP

in an annual PTEP account of the S corporation, or attributable to E&P that are excludable from the S corporation's gross income under section 1293(c), that is treated as a dividend for purposes of section 1411 (that is, for purposes of the net investment income tax) and, therefore, may be net investment income ("NII PTEP"), it will attach an attachment to the Schedule K-3 regarding your share of the S corporation's NII PTEP. If you are an individual who is a U.S. citizen or resident, or a domestic trust or estate, use the U.S. dollar amounts of NII PTEP reported on the statement, and follow the Instructions for Form 8960, Net Investment Income Tax—Individuals, Estates, and Trusts, to figure and report your net investment income. See Regulations sections 1.1411-1 through -10 for details. Note that your share of a distribution received by the S corporation that is attributable to PTEP in your annual PTEP accounts, or attributable to E&P that are excludable from your gross income under section 1293(c), may also be treated as a dividend for purposes of section 1411 and, therefore, may be NII PTEP.

**Note.** Columns (e) and (f) are reported in the foreign corporation's functional currency.

### Part V. Information on Shareholder's Section 951(a)(1) and Section 951A Inclusions

Use Part V to determine your subpart F income inclusions and section 951(a)(1)(B) inclusions, or your share of the S corporation's subpart F income inclusions and section 951(a)(1)(B) inclusions, and to complete Form 8992.

If the S corporation does not apply Proposed Regulations section 1.958-1(d)(1) to treat it as not owning stock of a foreign corporation within the meaning of section 951, and is a U.S. shareholder of the foreign corporation, then any subpart F income inclusions and section 951(a)(1)(B) inclusions are inclusions of the S corporation, of which you generally include in gross income a share. In such a case, your share of the S corporation's subpart F income inclusions and section 951(a)(1)(B) inclusions are reported on Schedule K-1, line 10, Other income (loss), and are not reported in Part V.

If the S corporation elected to be treated as owning stock of a CFC within



the meaning of section 958(a) for purposes of applying section 951A under Notice 2020-69, 2020-39 I.R.B. 604, the S corporation determines its GILTI inclusion, of which you generally include in gross income a share. In such a case, your share of the S corporation's GILTI inclusion is reported on Schedule K-1, line 10, Other income (loss), and is not reported in Part V.

For each CFC listed in column (a) of which you are a U.S. shareholder, include the amounts of subpart F income and section 951(a)(1)(B) inclusion reported on Part V in determining the amount you report on Schedule 1 (Form 1040).

For each CFC listed in column (a) of which you are a U.S. shareholder, report the tested income and tested loss for each CFC on Form 8992, Schedule A, columns (c) and (d), respectively, and include your share of each CFC's items described in columns (i) through (n) in determining the amount to report on Form 8992, Schedule A, columns (e) through (j), respectively.

## Part VI. Information To Complete Form 8621

U.S. persons may be required to complete and file Form 8621 and/or include amounts in income with respect to PFICs owned through an S corporation. This includes PFICs with respect to which no qualified electing fund (QEF) or mark-to-market (MTM) election has been made and unpedigreed QEFs (section 1291 funds), as well as PFICs with respect to which a pedigreed QEF, MTM, qualifying insurance corporation (QIC), or other election has been, or may be, made. For information regarding the requirement to file Form 8621, as well as certain filing exceptions, see Regulations section 1.1298-1 and the Form 8621 instructions.

Use the information provided in this Schedule K-3, Part VI (including any supplemental Attachments 5 and 6, if applicable), as instructed below to complete Form 8621 with respect to each PFIC for which you have a filing obligation. Additionally, for any PFIC that you own through your interest in the S corporation, use the information provided in this Schedule K-3, Part VI (including any supplemental Attachments 5 and 6, if applicable) to determine your income inclusion with respect to the PFIC (if any) and

complete your U.S. federal income tax return.

If a PFIC reported on this Schedule K-3 also constitutes a CFC within the meaning of section 957 (PFIC/CFC) and you are a U.S. shareholder (within the meaning of section 951(b)) with respect to such PFIC/CFC, the information on this schedule with respect to such PFIC/CFC may not be relevant to you. The box in Section 1, column (m), will be checked if the PFIC also constitutes a CFC. See section 1297(d) for additional information.

### Section 1. General Information on Passive Foreign Investment Company (PFIC), Qualified Electing Fund (QEF), or Qualifying Insurance Corporation (QIC)

**Columns (a) through (e).** If you are required to complete Form 8621 with respect to a PFIC reported on this schedule, use this information to complete the Form 8621 background information.

**Columns (f) through (i).** If you are required to complete Form 8621 with respect to a PFIC reported on this schedule, enter this information on Form 8621, Part I, lines 1 through 4.

**Note.** If you are making an election under Regulations sections 1.1291-10, 1.1297-3, or 1.1298-3 with respect to a PFIC reported on this Schedule K-3, Part VI, you may need additional information from the S corporation regarding the value of the PFIC shares reported in column (i) that is not reported here.

**Column (j).** This column will indicate to you (using the codes below) whether the S corporation has made an election with respect to the PFIC that binds the shareholders.

### S Corporation Election Codes

Code	Election Type
QEF	Qualified Electing Fund Election
MTM	Mark-to-Market Election
QIC	Qualifying Insurance Corporation Election

**Note.** If the S corporation has made a pedigreed QEF, MTM, or QIC election with respect to a PFIC, the S corporation is not required to complete

Schedule K-3, Part VI with respect to that PFIC if the S corporation files Form 8621 for that PFIC. In that case, you may not be required to file Form 8621 with respect to that PFIC and income inclusions with respect to the PFIC, if any, will be figured by the S corporation and reported to you on Schedule K-1, Part III. However, if the S corporation has made a pedigreed QEF, MTM, or QIC election with respect to a PFIC, for which the S corporation does not file Form 8621, or if it owns stock of an unpedigreed QEF, it is required to complete Schedule K-3, Part VI with that PFIC's information, and you may be required to file Form 8621 with respect to that PFIC. See Regulations section 1.1298-1(b)(2) and the Form 8621 instructions for additional information.

**Columns (k) through (n).** Use the information provided in these columns to make certain elections with respect to a PFIC on Form 8621, Part II. If you do not intend to make any election with respect to a PFIC reported on this Schedule K-3, Part VI, you may generally ignore these boxes for such PFIC.

**Note.** If you are making an election under Regulations sections 1.1291-9, 1.1297-3, or 1.1298-3 with respect to a PFIC/CFC, or a PFIC that is a "former PFIC" within the meaning of Regulations section 1.1291-9(j)(2)(iv), you may need additional information from the S corporation that is not reported on this Schedule K-3, Part VI, including information regarding the PFIC's E&P.

### Section 2. Additional Information on PFIC or QEF

**Note.** The S corporation will complete Section 2 with respect to each PFIC reported on Section 1, and each line completed for a PFIC in Section 1 corresponds to the same line on Section 2. If the PFIC has no current year activity, or has no other information for the corporation to report in columns (c) through (o), the S corporation will only include the name and EIN of the PFIC or QEF in columns (a) and (b) and will leave columns (c) through (o) blank with respect to that PFIC.

### QEF Information

**Columns (c) and (d).** This information is to assist you in determining your income inclusions from certain PFICs

with respect to which a QEF election has been made.

If the S corporation has made a pedigreed QEF election with respect to a PFIC, and the S corporation files Form 8621 for that PFIC, such PFIC will not be reported on Schedule K-3, Part VI. In that case, your share of the S corporation's QEF inclusions, if any, will be reported to you on Schedule K-1, Part III. However, in the event the S corporation does not file Form 8621 for a PFIC with respect to which the S corporation has made a pedigreed QEF election, or if the S corporation owns stock of an unpedigreed QEF, you may be required to file Form 8621 for that PFIC. See Regulations section 1.1298-1(b)(2) for additional information.

If you are required to file Form 8621 with respect to a PFIC reported on Schedule K-3, Part VI, enter your share of the S corporation's QEF ordinary earnings and net capital gain inclusions from columns (c) and (d) on Form 8621, Part III, lines 6a and 7a, respectively, and include these amounts in gross income on your U.S. federal income tax return unless you are making an election under section 1294 with respect to the QEF for the current tax year. If you are making a section 1294 election with respect to the QEF for the current tax year, use the rest of Form 8621, Part III, lines 8 and 9 to determine the amount of deferred tax with respect to the QEF for the current tax year.

### Mark-to-Market Information

**Columns (e) and (f).** This information is to assist you in determining your gain or loss from certain PFICs with respect to which an MTM election has been made.

If the S corporation has made an MTM election with respect to a PFIC (MTM PFIC), and the S corporation files Form 8621 for that MTM PFIC, such MTM PFIC will not be reported on Schedule K-3, Part VI. In that case, your share of the S corporation's MTM gain or loss, if any, will be reported to you on Schedule K-1, Part III. However, in the event the S corporation does not file Form 8621 for an MTM PFIC, the reporting burden falls on the shareholder. See Regulations section 1.1298-1(b)(2) for additional information.

If you are required to file Form 8621 with respect to a MTM PFIC reported on

Schedule K-3, Part VI, enter the amount in column (f) on Form 8621, Part IV, line 10a. You may need additional information from the S corporation regarding your share of its adjusted tax basis in the MTM PFIC stock to complete the rest of Form 8621, Part IV. Your share of the S corporation's adjusted tax basis in the MTM PFIC stock may be equal to your share of the fair market value of the stock at the beginning of the prior tax year reported in column (e). However, your share of the S corporation's adjusted tax basis in the MTM PFIC stock may not be equal to the fair market value of the stock at the beginning of the prior tax year, depending on the amounts of the S corporation's prior year income inclusions and the amounts for which the S corporation was allowed a deduction with respect to the MTM PFIC. Once you determine your share of the S corporation's adjusted tax basis in the MTM PFIC shares, enter this amount on Form 8621, Part IV, line 10b, and use the rest of Form 8621, Part IV, lines 10c through 12, to determine your MTM gain or loss to include in on your U.S. federal income tax return.

### Section 1291 and Other Information

**Note.** Generally, this information is to assist you in satisfying any information reporting obligations for, and in figuring income inclusions with respect to, section 1291 funds. However, except as otherwise provided, this information may be relevant to PFICs with respect to which a pedigreed QEF, MTM, or other election has been made by you or the S corporation.

**Column (g).** This information is provided to help you assess your holding period in the PFIC stock through your ownership in the S corporation. Unless also provided in Section 1, column (g), with respect to an acquisition of stock in the PFIC during the S corporation's tax year, these dates do not need to be entered on Form 8621 or on your U.S. federal income tax return.

**Note.** The dates entered in this column (g) will be the dates on which the S corporation acquired the PFIC stock. If you acquired your interest in the S corporation after the date listed with respect to a PFIC, you may have a different holding period with respect to such PFIC stock.

**Column (h).** Your share of the amount of cash and fair market value of property distributed by the PFIC during the tax year may be reported on different parts of Form 8621, or not reported at all on Form 8621.

### Where on Form 8621 To Report Distributions From PFICs

IF you are a shareholder of a...	THEN...
Section 1291 fund,	enter this amount on Form 8621, Part V, line 15a.
QEF for which you are not making a section 1294 election for the current tax year,	you do not need to enter this on Form 8621.
QEF for which you are making a section 1294 election for the current tax year,	enter this amount on Form 8621, Part III, line 8b.
MTM PFIC,	you do not need to enter this on Form 8621.

**Note.** Deemed distributions by QEFs are not reported on Schedule K-3, Part VI. If you make, or have made, an election under section 1294 and are deemed to have received a distribution from the QEF, this information is required to complete Form 8621. See section 1294(f) and Regulations section 1.1294-1T for additional information.

**Note.** If you have made a section 1294 election with respect to a QEF owned by the S corporation, a distribution of earnings by the QEF will terminate the section 1294 election to the extent the election is attributable to the earnings distributed. In such a case, enter the amount of such distribution on Form 8621, Part VI, line 22. See Regulations section 1.1294-1T(e) and the Form 8621, Part VI, instructions for additional information.

**Column (i).** This information is to help you assess any information related to the date of a distribution from a PFIC. You do not need to enter these dates on Form 8621 or on your U.S. federal income tax return.

**Column (j).** This information is to help you assess any available foreign tax credit attributable to an excess distribution from a section 1291 fund in which you are a shareholder through your ownership in the S corporation. If you are required to file Form 8621 with



respect to a section 1291 fund owned by the S corporation, use this amount to determine your foreign tax credit to include on Part V, line 16d. See section 1291(g) for additional information on creditable foreign taxes.

**Column (k).** This information is to help you assess your excess distribution and resulting additional tax and interest charge with respect to each section 1291 fund in which you are a shareholder through your ownership in the S corporation. If you are required to file Form 8621 with respect to a section 1291 fund owned by the S corporation, use this amount to determine the amount to include on Part V, line 15b, and use the rest of Form 8621, Part V, lines 15 and 16, to determine the amount of any excess distribution and resulting additional tax and interest charge to include on your U.S. federal income tax return with respect to the section 1291 fund.

**Note.** The information in column (k) is only relevant with respect to section 1291 funds and is not relevant for any PFIC with respect to which a pedigreed QEF or MTM election has been, or may be, made.

**Column (l).** This information is provided to help you assess the treatment to you on any disposition by the S corporation of stock in a PFIC in combination with column (g). These dates do not need to be entered on Form 8621.

**Note.** Your holding period of the PFIC stock may have begun on a different date than the S corporation's holding period.

**Columns (m) through (o).** This information is to assist you in figuring any gain or loss on the S corporation's disposition of PFIC stock.

For each section 1291 fund in which you are a shareholder through your ownership in the S corporation, enter the amount in column (o) on Form 8621, Part V, line 15f, and use the rest of Form 8621, Part V, line 16, to determine the amount of any excess distribution and resulting additional tax and interest charge to include on your U.S. federal income tax return with respect to the section 1291 fund.

For each MTM PFIC in which you are a shareholder through your ownership in the S corporation, and with respect to which you are required to file Form 8621, enter the amounts in columns (m)

and (n) on lines 13a and 13b, respectively, of Form 8621, Part IV, to complete the rest of Form 8621, Part IV, lines 13 and 14, in determining your MTM gain or loss to include on your U.S. federal income tax return.

For each QEF in which you are a shareholder through your ownership in the S corporation, and with respect to which you have previously made a section 1294 election, and for which you are required to file Form 8621, you may need the amounts reported in columns (m) through (o) to complete Part VI, lines 22 through 24. See Regulations section 1.1294-1T and the Form 8621 instructions for additional information.

### **Part VII. Shareholder's Share of Corporation's Interest in Foreign Corporation Income (Section 960)**

**Note.** Amounts on this part are reported in foreign currency.

Individuals, estates, and trusts may claim a foreign tax credit for foreign income taxes deemed paid with respect to a CFC if they make an election under section 962.

To figure the foreign taxes deemed paid by a shareholder that is U.S. shareholder of a CFC owned by an S corporation, the income, deductions, and taxes of the CFC must be assigned to separate categories of income and then to income groups in those separate categories. See Regulations section 1.960-1(c)(1). This is completed on Schedule Q (Form 5471), CFC Income by CFC Income Groups. The income groups include the subpart F income group, the tested income group, and the residual income group. Each single item of foreign base company income as defined in Regulations section 1.954-1(c)(1)(iii) is a separate subpart F income group. See Regulations section 1.960-1(d)(2)(ii)(B). The tested income group consists of tested income within a section 904 category. See Regulations section 1.960-1(d)(2)(ii)(C). The residual income group consists of any income not in the other income groups or in a PTEP group. See Regulations section 1.960-1(d)(2)(ii)(D). See Regulations section 1.960-3(c)(3) with respect to the PTEP groups. The PTEP groups are not reported on this Schedule K-3, Part VII.

Schedule K-3, Part VII, reports your share of the CFC's net income in each

income group in functional currency. An elector under section 962 will report its share of the net income in the subpart F income groups by CFC in column 8(a) of Form 1118, Schedule C (section 960(a)). The shareholder must also complete column 5 of Form 1118, Schedule C, with information from Schedule K-3, Part VII. An individual electing under section 962 will report its share of the net income in the tested income group by CFC on Form 1118, Schedule D (section 960(d)).

**Note.** The amount entered in column 8(a) will not equal the share of the net income in the subpart F income group if there is a qualified deficit. See Regulations section 1.960-2(b)(3)(ii).

The S corporation must attach a Form 5471 to each Schedule K-3. The shareholder will use Schedule Q (Form 5471) to determine the total net income in the subpart F income groups of the CFC to report on column 6 of Form 1118, Schedule C, and the total current year taxes by subpart F income groups of the CFC, to report on column 7 of Form 1118, Schedule C. This will allow the shareholder to figure the taxes deemed paid with respect to section 951(a)(1) inclusions by subpart F income group on Form 1118, Schedule C. Similarly, the shareholder will use Schedule Q (Form 5471) to determine the total tested taxes in that group to determine the pro rata share of tested foreign income taxes to report on Form 1118, Schedule D, column 8.

**Example.** In Year 1, USC, an S corporation, has two U.S. citizen shareholders with equal interests in the S corporation. Both shareholders make elections under section 962. USC wholly owns CFC. CFC earns passive category interest income sourced from Country X of 100u and pays a withholding tax of \$20 to a foreign country. USC completes Form 5471, including Schedule Q, for CFC. The code for Country X is "X." On Schedule Q (Form 5471), USC reports the following.

**Example, USC's Schedule Q  
(Form 5471) for CFC**

<b>A</b>	PAS			
<b>B</b>	i			
		<b>(i)</b>	<b>(xi)</b>	<b>(xii)</b>
<b>1</b>				
<b>a (1)</b>	CFC	XX	100u	\$20

On Schedule K-3, Part VII, USC reports the following to each of its shareholders.

**Example, USC's Schedule K-3,  
Part VII for Shareholders**

<b>A</b>	PAS		
<b>C</b>	i		
		<b>(i)</b>	<b>(ii)</b>
<b>1</b>			
<b>a (1)</b>	CFC	X	50u

On Form 1118, Schedule C, with respect to the passive category each shareholder, reports with respect to the information received on Schedule K-3 (including the attached Schedule Q (Form 5471)) as follows.

**Example, Shareholder's Form 1118, Schedule C**

<b>1a</b>	<b>5a</b>	<b>5b</b>	<b>5c</b>	<b>6</b>	<b>7</b>	<b>8a</b>	<b>9</b>	<b>10</b>
CFC	DIRRA	i	CFC	100u	\$20	50u	0.500	\$10