



Partnership Instructions for Schedule K-2 (Form 1065) and Schedule K-3 (Form 1065)

Partners' Distributive Share Items—International and Partner's Share of Income, Deductions, Credits, etc.—International Partnership Instructions for Completion of Schedule K-2 (Form 1065) and Schedule K-3 (Form 1065)

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-2 (Form 1065) and Schedule K-3 (Form 1065), and their instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1065](https://www.irs.gov/Form1065).

What's New

Schedule K-2 and Schedule K-3 are new for the 2021 tax year. These schedules replace, supplement, and clarify the former Form 1065, U.S. Return of

Partnership Income, Schedule K, Partners' Distributive Share Items, line 16, Foreign Transactions, and Schedule K-1 (Form 1065), Part III, Partner's Share of Current Year Income, Deductions, Credits, and Other Items, line 16, Foreign Transactions. The new format assists partnerships in providing partners with the information necessary to complete their returns with respect to the international tax aspects of the Internal Revenue Code. For example, the new format provides information necessary for corporate and individual partners to compute their foreign tax credit on Form 1118, Foreign Tax Credit—Corporations, and Form 1116, Foreign Tax Credit (Individual, Estate or Trust), respectively.

General Instructions

Purpose of Form

Schedule K-2 is used to report items of international tax relevance from the operation of a partnership. A partnership must report this information to its partners on Schedule K-3. Partners must include this information on their tax or information returns.

Who Must File

The partnership need not complete this schedule if the partnership does not have items of international tax relevance (typically, international activities or foreign partners).

Any partnership required to file Form 1065 and that has items relevant to the determination of the U.S. tax or certain withholding tax or reporting obligations of its partners under the international provisions of the Internal Revenue Code must complete the relevant parts of Schedule K-2 and Schedule K-3. See each part and section for a more detailed description of who must file each part and section. Penalties may apply for filing Form 1065 without all required information

or for furnishing Schedule K-3 to partners without all required information.

Note. Except as otherwise required by regulations or other IRS guidance, a partnership is not required to obtain information from its direct or indirect partners to determine if it needs to file each of these parts.

Note. A partnership is only required to complete the relevant portions of the Schedule K-2 and Schedule K-3, as applicable. For example, if the partnership does not own an interest in a foreign corporation, it is not required to complete Schedule K-2, Part IV, Section 3, Part V, Part VI, and Part VII or Schedule K-3, Part IV, Section 3, Part V, Part VI, and Part VII.

Note. Schedule K-2 and Schedule K-3 consist of the most common international tax provisions of the Internal Revenue Code. However, not all provisions are specifically identified on these schedules. To the extent that an international provision is implicated that is not otherwise specifically identified, the partnership should check box 12 on Schedule K-2, Part I, and Schedule K-3, Part I, and attach a statement to both Form 1065 and Schedule K-3 (for distributive share).

When and Where To File

Attach Schedule K-2 to your Form 1065 and file both by the due date (including extensions) for that return.

Provide Schedule K-3 to your partners according to the timeline for providing the Schedule K-1. See the Instructions for Form 1065.

Computer-Generated Schedules K-2

Generally, all computer-generated forms must receive prior approval from the IRS and are subject to an annual review. However, see the *Exception* below.

Requests for approval may be submitted electronically to substituteforms@irs.gov; or requests may be mailed to:

Internal Revenue Service
Attention: Substitute Forms Program
SE:W:CAR:MP:P:TP
1111 Constitution Ave. NW, Room
6554
Washington, DC 20224

Exception. If a computer-generated Schedule K-2 conforms to and does not deviate from the official form and schedules, it may be filed without prior approval from the IRS.

Important. Be sure to attach the approval letter to a computer-generated Schedule K-2. However, if the computer-generated form is identical to the IRS prescribed form, it does not need to go through the approval process, and an attachment is not necessary.

Every year, the IRS issues a revenue procedure to provide guidance for filers of computer-generated forms. In addition, every year the IRS issues Pub. 1167, General Rules and Specifications for Substitute Forms and Schedules, which reprints the most recent applicable revenue procedure. Pub. 1167 is available at [IRS.gov/forms-pubs/about-publication-1167](https://www.irs.gov/forms-pubs/about-publication-1167).

How To Complete Schedule K-2 and Schedule K-3

Reporting currency. Report all amounts in U.S. dollars except where specified otherwise.

Uses of the parts of Schedule K-2 and Schedule K-3, in general.

Part I of Schedule K-2 (and Part I of Schedule K-3). Used to report international tax items not reported elsewhere on Schedule K-2 or Schedule K-3.

Part II of Schedule K-2 (and Part II of Schedule K-3). Used to compute the partnership's income or loss by source and separate category of income and to report the partner's distributive share of such income or loss. Partners will use the information to compute and claim a foreign tax credit on Forms 1116 or 1118.

Part III of Schedule K-2 (and Part III of Schedule K-3). Used to report information necessary for the partner to determine the allocation and apportionment of research and experimental (R&E) expense and interest expense for the foreign tax credit limitation. Also used to report foreign taxes paid or accrued by the partnership and the partner's distributive share of such taxes. Partners will use the information to

compute and claim a foreign tax credit on Forms 1116 or 1118.

Part IV of Schedule K-2 (and Part IV of Schedule K-3). Used to report the information necessary for the partner to determine its deduction with respect to foreign-derived intangible income (FDII). Partners will use the information to claim and compute a section 250 deduction with respect to FDII on Form 8993, Section 250 Deduction for Foreign-Derived Intangible Income (FDII) and Global Intangible Low-Taxed Income (GILTI). Also use this part to report income adjustments under section 743(b) by source and separate category. Finally, use this part to report distributions from a foreign corporation to the partnership, and the partner's share of such distributions. Partners will use the information to compute and claim a foreign tax credit on Forms 1116 or 1118. Partners will also use the information to exclude distributions of previously taxed earnings and profits (PTEP) from gross income and report foreign currency gain or loss with respect to PTEP distributions on Forms 1040 and 1120, and also to compute and claim a dividends received deduction under section 245A on Form 1120.

Part V of Schedule K-2 (and Part V of Schedule K-3). Used to provide information the partner needs to determine any inclusions under sections 951(a)(1) and 951A. Partners will use the information to complete Form 8992, U.S. Shareholder Calculation of Global Intangible Low-Taxed Income (GILTI), and Forms 1040 and 1120 with respect to subpart F inclusions, section 951(a)(1)(B) inclusions, and section 951A inclusions.

Part VI of Schedule K-2 (and Part VI of Schedule K-3). Used to provide information the partner needs to complete Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company (PFIC) or Qualified Electing Fund (QEF), including information required to determine any inclusion by the partner under section 1291, 1293, or 1296, as well as information regarding certain elections with respect to the PFIC or QEF.

Part VII of Schedule K-2 (and Part VII of Schedule K-3). Used to provide the foreign corporation's net income in the income groups for purposes of the partner's deemed paid taxes computation with respect to inclusions under sections 951A, 951(a)(1), and 1293(f). Partners will use the information to compute and claim a deemed paid foreign tax credit on Form 1118.

Part VIII of Schedule K-2 (and Part VIII of Schedule K-3). Used to provide information for the partner to compute its base erosion and anti-abuse tax (BEAT).

Partners will use the information to complete Form 8991, Tax on Base Erosion Payments of Taxpayers With Substantial Gross Receipts.

Part IX of Schedule K-2 (and Part IX of Schedule K-3). Used to provide information for the partner to compute its U.S. tax liability with respect to income effectively connected with a U.S. trade or business (ECI) or with respect to fixed, determinable, annual, or periodical (FDAP) income, as well as providing certain information with respect to section 871(m) for any partnership that is a publicly traded partnership and satisfies certain other requirements. Partners will use the information to compute and report any U.S. tax liability on Forms 1040-NR and 1120-F, or on Forms 1042 and 1042-S.

Part X of Schedule K-3. Used to provide information for a foreign partner to compute its distributive share of deemed sale items on a transfer of the partnership interest. Partners will use the information to complete Form 4797, Sales of Business Property, and Form 8949, Sales and Other Dispositions of Capital Assets.

Specific Instructions

Important. If the information required in a given section exceeds the space provided within that section, **do not** write "See attached" in the section, leave the section otherwise blank, and then attach all of the information on additional sheets. Instead, complete all entry spaces in the section and attach the remaining information on additional sheets. The additional sheets must conform with the IRS version of that section.

Schedule K-2, Identifying Information

Item A—Name of Partnership. Enter the name of the partnership as it appears on the Form 1065.

Item B—Employer Identification Number. Enter the EIN of the partnership as it appears on the Form 1065.

Item C—Withholding Foreign Partnership. If the partnership is a withholding foreign partnership under Revenue Procedure 2017-21, 2017-6 I.R.B. 791, check the "Yes" box. Otherwise check the "No" box.

Item D—WP-EIN. If the "Yes" box in C is checked, provide the partnership's withholding foreign partnership employer identification number (WP-EIN). Enter the partnership's WP-EIN regardless of whether the partnership filed this Form 1065 using its WP-EIN.

Item E—Qualified Derivatives Dealer. If the partnership (including the home office or any branch) is a qualified derivatives dealer under Rev. Proc. 2017-15, 2017-3 I.R.B. 437, check the “Yes” box. Otherwise, check the “No” box.

Item F—QI-EIN. If the “Yes” box in E is checked, provide the partnership’s qualified intermediary employer identification number (QI-EIN).

Schedule K-2, Part I (Partnership’s Current Year International Transaction Information), and Schedule K-3, Part I (Partner’s Share of Current Year International Transaction Information)

Note. Partners will use the following information to claim and compute a foreign tax credit on Forms 1116 or 1118.

Note. Partners will also use the information from box 6 to prepare their tax returns (Form 1040, U.S. Individual Income Tax Return; Form 1120, U.S. Corporation Income Tax Return; Form 1040-NR, U.S. Nonresident Alien Income Tax Return; and Form 1120-F, U.S. Income Tax Return of a Foreign Corporation, as applicable) by taking into account that under section 267A they are not allowed deductions for the amounts listed in the statement with respect to box 6.

This part is used to report information for international tax items not reported elsewhere on the Schedule K-2. Check the box to indicate whether any of the following international tax items are applicable in the tax year. If applicable, attach a statement to Form 1065 with the required information. If applicable, the partnership must complete Schedule K-3, Part I, and include with the Schedule K-3 the attachment(s) as described below with the partner’s distributive share of the amounts.

Box 1. Gain on personal property sale. In general, income from the sale of non-depreciable personal property (other

than inventory and certain intangible property) is sourced according to the residence of the seller. See section 865. For sourcing purposes, non-depreciable personal property (other than inventory and certain intangible property) sold by the partnership is treated as sold by the partners. A U.S. citizen or resident with a tax home (section 911(d)(3)) in another 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 partnership has income from the sale of non-depreciable personal property (other than inventory and certain intangible property), it must check box 1 and attach a statement to Schedule K-2 and Schedule K-3 (for distributive share) with Table 1, Information on Non-Depreciable Personal Property Sold. Do not combine sales of property. Each item of property sold must be listed separately with Table 1 completed. For column (g), enter the two-letter code from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes). If the property is taxed by more than one country, complete a separate line for that country, but denote in some manner (for example, a footnote) that the property entered on both lines is the same property.

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 partnership has such taxes, it must check box 2 and attach a completed Form 1118, Schedule I, to the Schedule K-2 and Schedule K-3 (for distributive share). The partnership need not complete Form 1118, Schedule I, Part I, column 13; Schedule I, Part II, lines 2 through 4; or Part III, lines 1 and 3. The partnership must attach Schedule I even if there are no corporate partners because the parts that the partnership must complete apply to individuals eligible to claim a foreign tax credit.

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 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 includes any entity in which the payor holds, directly or indirectly, at least a 10% ownership interest (determined by vote or value). A payor includes a person that takes foreign income taxes paid or accrued by a partnership into account pursuant to section 702(a)(6).

The partnership must report foreign taxes that are potentially suspended on Schedule K-2, Part III, Section 3, line 2E, and each partner’s share of such taxes on Schedule K-3, Part III, Section 3, line 2E.

Check box 3 and attach a statement that includes the following for each splitter arrangement in which the partnership participates that would qualify as a splitter arrangement under section 909 if one or more partners are covered persons with respect to an entity that took into account related income from the arrangement.

Section 1 of attached statement—Potentially suspended taxes.

1. Explanation of the splitter arrangement (for example, reverse hybrid owned by partnership).
2. Amount of taxes paid or accrued by the partnership in connection with the splitter arrangement.
3. Amount of related income on which such taxes were paid or accrued.
4. The two-letter code for the country to which the taxes were paid or accrued from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes).
5. The separate category and source of income to which the taxes are assigned.

Section 2 of attached statement—Potentially unsuspended taxes. Include a separate section that reports the following with respect to each splitter arrangement for which the partnership has taken into account any related income.

1. Origin year of the splitter arrangement.
2. Explanation of the splitter arrangement (for example, reverse hybrid owned by partnership).
3. Amount of taxes paid or accrued by the partnership in connection with the splitter arrangement in the origin year of the splitter arrangement.
4. Amount of related income on which such taxes were paid or accrued in the origin year of the splitter arrangement.

Table 1. Information on Non-Depreciable Personal Property Sold (For use with Sch. K-2 (Form 1065), Part I, box 1) (Also for use with Sch. K-3 (Form 1065), Part I, box 1)

(a) Property description	(b) Date of sale	(c) Proceeds	(d) Basis	(e) Amount of tax paid or accrued in local currency	(f) Amount of tax paid or accrued in U.S. dollars	(g) Taxing country (enter two-letter country code)

5. The two-letter code for the country to which the taxes were paid or accrued from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes).

6. The separate category and source of income to which the taxes are assigned.

7. Amount of related income taken into account in the current tax year and the amount of taxes originally paid that relate to that portion of the related income.

Box 4. Foreign tax translation. If the partnership reports any foreign taxes on Schedule K-2, Part III, Section 3, and Schedule K-3, Part III, Section 3, it must check the box for item 4 and attach the statement described in the instructions for those sections.

Box 5. High-taxed income. 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). To determine if income is high-taxed income, partners must group their shares of passive income from a partnership according to the rules in Regulations section 1.904-4(c)(3), except that the portion, if any, of the share of income attributable to income earned

by a domestic partnership through a foreign qualified business unit (QBU) is separately grouped under the rules of Regulations section 1.904-4(c)(4). See also Regulations section 1.904-4(c)(5)(ii). For this purpose, a foreign QBU is a qualified business unit (as defined in section 989(a)), other than a controlled foreign corporation (CFC) or noncontrolled 10%-owned foreign corporation, that has its principal place of business outside the United States.

If the partnership has passive income, the partnership must check the box for item 5 and attach a statement to Form 1065 and Schedule K-3 with the Schedule 1 or Schedule 2, or both, completed.

Note. Passive income is not treated as subject to a withholding tax or other foreign tax when a credit is disallowed in full for such foreign tax, for example, under section 901(k).

Example 1. In Year 1, USP, a domestic partnership, has two corporate partners with equal interests in the partnership. In Year 1, USP receives \$100 of passive dividend income from a noncontrolled 10%-owned foreign

corporation subject to a 15% withholding tax (after reduction under the relevant U.S. income tax treaty). USP also receives \$150 of passive interest income from an unrelated person subject to a 30% withholding tax (and not eligible for reduction under a U.S. income tax treaty). USP incurs \$80 of expenses that are allocable to the interest income. USP also receives \$50 of passive dividend income from a CFC which is not subject to tax (after reduction under the relevant U.S. income tax treaty). No expenses are allocable to the dividend income. USP's branch operation in Country X that is treated as a QBU under section 989(a) receives \$100 of passive dividend income subject to a 15% withholding tax (after reduction under the relevant U.S. income tax treaty). Finally, USP earns \$400 of passive income with respect to the branch operation in Country X that is treated as a QBU under section 989(a). Such income is subject to foreign tax (but not withholding tax) of \$40. Expenses of \$120 are allocable to the distributive share of branch income. No expenses are allocable to the dividend income.

For Year 1, USP checks box 5 on Part I of Schedule K-2 (Form 1065), and attaches Schedules 1 and 2 to Form 1065.

Schedule 1

Reference: Regulations section 1.904-4(c)(3)			
		I. Passive Income Net of Allocable Expenses	II. Taxes
A	Passive income subject to withholding tax of 15% or more		
B	Passive income subject to withholding tax of less than 15% but greater than zero		
C	Passive income not subject to any foreign tax		
D	Passive income subject to no withholding tax, but subject to other foreign tax		

Schedule 2

Reference: Regulations section 1.904-4(c)(4)			
A	Name of foreign QBU: _____		
	(Complete a separate Schedule 2 for each foreign QBU)	I. Passive Income Net of Allocable Expenses	II. Taxes
B	Passive income subject to withholding tax of 15% or more		
C	Passive income subject to withholding tax of less than 15% but greater than zero		
D	Passive income not subject to any foreign tax		
E	Passive income subject to no withholding tax, but subject to other foreign tax		

Schedule 1 for Example 1

Reference: Regulations section 1.904-4(c)(3)			
		I. Passive Income Net of Allocable Expenses	II. Taxes
A	Passive income subject to withholding tax of 15% or more	\$170	\$60
B	Passive income subject to withholding tax of less than 15% but greater than zero	0	0
C	Passive income not subject to any foreign tax	50	0
D	Passive income subject to no withholding tax, but subject to other foreign tax	0	0

Schedule 2 for Example 1

Reference: Regulations section 1.904-4(c)(4)			
A	Name of foreign QBU: _____ Country X QBU _____	I. Passive Income Net of Allocable Expenses	II. Taxes
	(Complete a separate Schedule 2 for each foreign QBU)		
B	Passive income subject to withholding tax of 15% or more	\$100	\$15
C	Passive income subject to withholding tax of less than 15% but greater than zero	0	0
D	Passive income not subject to any foreign tax	0	0
E	Passive income subject to no withholding tax, but subject to other foreign tax	280	40

USP completes the same schedules with the distributive shares and attaches those schedules to each Schedule K-3 provided to the partners.

Exception. A less-than-10% limited partner (that does not hold its interest in the ordinary course of business) treats its distributive share of income from the partnership as a single item of passive income and, for purposes of determining if the income is high-taxed income, such income is not grouped with other amounts. See Regulations section 1.904-4(c)(5)(ii). Therefore, if the partnership knows that its only partners are less-than-10% limited partners (that do not hold their interest in the ordinary course of business), the partnership need not check box 5 or attach a statement.

Box 6. Section 267A disallowed deduction. Check box 6 if the partnership paid or accrued any interest or royalty for which the partnership knows, or has reason to know, that one or more of its partners is not allowed a deduction under section 267A. See the instructions for Form 1065, Schedule B, line 22, for additional information regarding section 267A. In addition, for each partner that is disallowed a deduction under section 267A, the partnership should, on the Schedule K-3 as to the specific partner, check box 6, Schedule K-3, Part I, and attach to the Schedule K-3 a statement titled "Section 267A Disallowed

Deduction" that separately lists the following information.

- A. The amount of interest paid or accrued by the partnership for which the partner is not allowed a deduction under section 267A.
- B. The amount of royalty paid or accrued by the partnership for which the partner is not allowed a deduction under section 267A.
- C. The extent to which information reported on other parts of the Schedule K-3 (for example, a line in Part II, Section 2; or Part IX, Section 2) reflects interest or royalty for which the partner is not allowed a deduction under section 267A.



CAUTION When completing other parts of Schedule K-2 and Schedule K-3 (for example, a line in Part II, Section 2; or Part IX, Section 2), list an amount without regard to whether the partner is disallowed a deduction under section 267A for the amount.

Box 12. Other international transactions. If the partnership has transactions, income, deductions, payments, or anything else that implicates the international tax provisions of the Internal Revenue Code and such events are not otherwise reported on this part or other parts of Schedule K-2 and Schedule K-3, report that information on an attachment and check box 12.

Schedule K-2, Parts II and III, and Schedule K-3, Parts II and III

Note. Partners will use the following information to claim and compute a foreign tax credit on Form 1116 or 1118.

Schedule K-2, Parts II and III, and Schedule K-3, Parts II and III, must be completed if the partnership has foreign source income, deductions, or losses, or has paid or accrued foreign taxes and has at least one partner that is eligible to claim a foreign tax credit. If the partnership does not have such a partner but is notified by a pass-through entity (for example, a partnership, S corporation, or a trust (see Regulations section 1.904-5(a)(4)(iv) for the definition of pass-through entity) that is a direct or indirect partner in the filing partnership that such pass-through entity has at least one partner that is eligible to claim the credit, then the filing partnership must complete Schedule K-2, Parts II and III, and Schedule K-3, Parts II and III.

On Schedule K-2, Parts II and III, the partnership reports its income and taxes by source and separate category. Unless specifically noted below, the partnership reports on Schedule K-3, Parts II and III, the partner's share of the partnership's income and taxes by source and separate category. The partner adds its share of the partnership's foreign source income and taxes by separate category to its other foreign source income and taxes in that

separate category to compute its foreign tax credit.

Partnership determination. The source and separate category of certain gross income, as well as the allocation and apportionment of certain deductions, can be determined by the partnership. This includes deductions that are definitely related to certain gross income of the partnership. See Regulations section 1.861-8(b)(1). See Schedule K-2, Part II, columns (a) through (e), and Part III, Section 1, columns (a) through (e). In Part III, Section 2, columns (a) through (e), some partnership assets may be characterized by source and separate category by the partnership. This includes certain assets that attract directly allocated interest expense under Temporary Regulations section 1.861-10T(b) and (c). See Temporary Regulations section 1.861-10T(d)(2). In Part III, Section 3, in the U.S. and foreign columns, the partnership assigns foreign taxes paid or accrued to a separate category and source. The partner's distributive share of the amounts determined by the partnership are reported on equivalent columns in Schedule K-3, Parts II and III.

Certain income, assets, deductions, and taxes are not assigned to a source or separate category by the partnership. See *Partner determination*, later.

Exception. If the partnership knows that its only partners are less-than-10% limited partners that do not hold their interest in the ordinary course of the partner's active trade or business, the partnership's foreign source gross income should be reported as passive category income and its deductions allocated and apportioned to foreign source income should be reported as reducing passive category income. See Schedule K-2, Part II, column (c), and Part III, Section 1, column (c). Report the assets as generating passive category income in Schedule K-2, Part III, Section 2, column (c). Similarly, any foreign taxes paid or accrued on foreign source income should be assigned to passive category income. See Schedule K-2, Part III, Section 3, column (d). The partner's distributive share of the amounts determined by the partnership are reported on equivalent columns in Schedule K-3, Parts II and III. See Regulations section 1.904-4(n)(1)(ii).

Schedule K-3. If the partnership has some partners that are less-than-10% limited partners (and their partnership interest is not held in the ordinary course of the partner's active trade or business), but not all partners meet this description, when completing the Schedule K-3 for the less-than-10% limited partners, report the partner's foreign source income as passive category income. See Part II,

column (c), and Part III, Section 1, column (c). Report the assets as generating passive category income in Part III, Section 2, column (c). Similarly, report the foreign taxes paid or accrued on foreign source income as passive category income in Part III, Section 3, column (d).

Foreign branch category income. A domestic partnership itself does not have foreign branch category income. However, report all income that would be foreign branch category income of its partners as if all partners were U.S. persons that were not pass-through entities. See Schedule K-2, Part II, column (b), Part III, Sections 1 and 2, column (b) and Part III, Section 3, column (c). The partner's distributive share of the amounts determined by the partnership are reported on equivalent columns in Schedule K-3, Parts II and III.

Schedule K-3. Any amounts reported on Schedule K-2 as foreign branch category income should be reported as general category income on the Schedule K-3, Parts II and III, provided to foreign individuals and foreign corporations.

Section 901(j) income. Income derived from each sanctioned country is subject to a separate foreign tax credit limitation. If the partnership derives such income, enter code "901j" on the line after category code. See Schedule K-2, Part II, column (e), Part III, Sections 1 and 2, column (e), and Part III, Section 3, column (f). The partner's distributive share of the amounts determined by the partnership are reported on equivalent columns in Schedule K-3, Parts II and III.

Partner determination. In Schedule K-2, Part II, column (f), and Part III, Section 1, column (f), enter the gross income and sales of the partnership that are required to be sourced by the partner. This includes income from the sale of most personal property other than inventory, depreciable property, and certain intangible property sourced under section 865. This also includes certain foreign currency gain on section 988 transactions. See the instructions for Forms 1116 and 1118 and Pub. 514, Foreign Tax Credit for Individuals, for additional details. In Schedule K-2, Part II, column (f), include deductions that are allocated and apportioned by the partner. This includes most interest expense and R&E expense. See Regulations sections 1.861-9(e) and 1.861-17(f). In Schedule K-2, Part III, Section 2, column (f), enter the assets that are assigned to a source and separate category by the partner. See the instructions for Schedule K-2, Part III, Section 2, for additional information. In Schedule K-2, Part III, Section 3, in the partner column, enter the foreign taxes that are assigned

to a source of income by the partner. This includes taxes imposed on certain sales income. The partner's distributive share of the amounts determined by the partnership are reported on equivalent columns in Schedule K-3, Parts II and III.

Schedule K-2, Part II, and Schedule K-3, Part II (Foreign Tax Credit Limitation)

Lines 1 through 24. Total gross income. Form 1118, Schedule A, requires a corporation to separately report certain types of gross income by source and separate category. Separate reporting is required because each type of gross income has a different sourcing rule. See sections 861 through 865 (and section 904(h) and, in some cases, U.S. income tax treaties). Schedule K-2, Part II, and Schedule K-3, Part II, lines 1 through 20 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 will report line 24 by country on their Form 1116, Part I, line 1a. Lines 1 through 20 also generally follow the types of gross income separately reported on Form 1065, Schedule K.

Country code. Forms 1116 and 1118 require the taxpayer to report the foreign country or U.S. possession within which the gross income is sourced. On lines 1 through 24, for each gross income item, enter 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, attach a statement with the information required on Schedule K-2, Part II, and Schedule K-3, Part II, for that type of income.

Example 2. In Year 1, USP, a domestic partnership, has employees who perform services in Country X and Country Y. USP earns \$25,000 of general category services income, \$10,000 with respect to Country X and \$15,000 with respect to Country Y. The two-letter code for Country X is XX and the two-letter country code for Country Y is YY. USP makes the following entries on the first two lines of Schedule K-2, Part II, under line 2.

Example 2 Table

	Description	(d)
A	XX	\$10,000
B	YY	\$15,000

Exceptions. Taxpayers are not required to report all gross income by foreign country or U.S. possession. See exceptions in the instructions for Forms 1116 and 1118 with respect to regulated investment companies and sections 863(b), 951A, and 965.

Note. There is no need to enter a foreign country or U.S. possession (to report on a country-by-country basis) for lines 16 through 18.

Lines 3 and 4. Rental income. These lines are reported separately because they are reported separately on Form 1065, Schedule K. The sourcing rule may be the same for both types of rental income.

Lines 7 and 8. Ordinary dividends and qualified dividends. Enter only ordinary dividends on line 7 and only qualified dividends on line 8. Ordinary dividends and qualified dividends may be attributable to PTEP and excluded from gross income under section 959. Do not include ordinary dividends or qualified dividends to the extent that they are attributable to PTEP in PTEP accounts of the partnership. See Notice 2019-01.

Lines 11 through 15 and 27 through 30. Capital gains and losses. These lines generally match the types of gains and losses reported separately on Form 1065, Schedule K. Further, 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.

Lines 16 and 46. Section 986(c) gain and loss. A partnership may not be able to compute its foreign currency gain or loss under section 986(c) on a PTEP distribution because a partner's annual PTEP account may be relevant for purposes of determining the amount of PTEP distributed, the PTEP group classification of the distributed PTEP, and the dollar basis in the distributed PTEP.

Lines 17 and 47. Section 987 gain and loss. The source of section 987 gain or loss is generally determined by reference to the source of the income or asset giving rise to such gain or loss. A partnership may also obtain section 987 gain or loss information from Form 8858, Information Return of U.S. Persons With Respect to Foreign Disregarded Entities (FDEs) and Foreign Branches (FBs).

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 it is determined by reference to the residence of the taxpayer, the section 988 gain and loss would be reported in column (f).

Line 19. Section 951(a) inclusions. Some partnerships may have subpart F income at the partnership level. A partnership may not have subpart F income at the partnership level if, pursuant to Proposed Regulations section 1.958-1(d)(4), it relies on Proposed Regulations section 1.958-1(d)(1), which treats a domestic partnership as not owning stock of a foreign corporation within the meaning of section 958(a) for purposes of section 951, and for purposes of any other provision that applies by reference to section 951.

Line 24. Total gross income. Add the gross income in lines 1 through 23 by country or possession and enter the total by country in rows A, B, and C.

Lines 25 through 54. Total deductions. Form 1118, Schedule A, requires a corporation 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 and Temporary Regulations sections 1.861-8T and -9T. For purposes of allocating and apportioning expenses, in general, a partner adds the distributive share of the partnership's deductions to its other deductions incurred directly. See Regulations section 1.861-8(e)(15). Lines 25 through 50 generally follow the separately reported types of deductions and losses on Form 1118, Schedule A. Individuals must generally follow the same expense allocation and apportionment rules, but Form 1116 only requires separate reporting of certain deductions by separate category. See Form 1116, Part I, lines 2 through 5. Lines 25 through 50 also generally correspond to the deductions separately reported on Form 1065, Schedule K.

Line 32. R&E expenses. In general, R&E expenses are allocated and apportioned by the partner and reported in column (f). See Regulations section 1.861-17(f). R&E expenses deducted under section 174 are definitely related to all income reasonably connected with relevant broad product categories of the taxpayer and are allocable to all items of

gross income as a class related to such product categories. The product categories are determined by reference to the three-digit classification of the Standard Industrial Classification Manual (SIC code).

Line 38. Charitable contributions. Charitable contribution deductions are apportioned solely to U.S. source gross income. See Regulations section 1.861-8(e)(12). Therefore, this deduction should be reported in column (a).

Lines 39 and 40. Interest expense specifically allocable under Regulations section 1.861-10 and -10T. Apart from interest expense entered on line 39, enter on line 40 interest expense that is directly allocable under Temporary Regulations section 1.861-10T to income from specific partnership property. Such interest expense is treated as directly allocable to income generated by such partnership property. See Temporary Regulations section 1.861-9T(e)(1).

Lines 41 through 43. Other interest expense. A partner's distributive share of a partnership's interest expense that is not directly allocable to income from specific partnership property is generally allocated and apportioned by the partner, subject to certain exceptions, and included in column (f). See Temporary Regulations section 1.861-9T(e)(1).

Interest expense incurred by certain individuals, estates, and trusts is characterized 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 Temporary Regulations section 1.861-10T. The amounts in each category of interest expense are reported on lines 41 through 43. If the partnership's only partners are corporate partners, the partnership need not report its interest expense by the categories of interest expense in sections 163 and 469. All such interest expense may be reported as business interest expense on line 41.

Exception. If a partnership's only partners are less-than-10% limited partners (whether individual or corporate) that do not hold their partnership interest in the ordinary course of the partner's active trade or business, the partnership's interest expense is directly allocated to partnership gross income based on source of income. All such income is passive category income. See Regulations section 1.861-9(e)(4)(i) for further guidance. However, if the partnership interest is held in the ordinary course of the partner's active trade or business, follow the aforementioned rules.

Exception. See Regulations section 1.861-9(e)(8) for a special rule for partnership loans.

Line 45. Foreign taxes not creditable but deductible. See the instructions for Forms 1116 and 1118 for examples of foreign taxes that are deductible, but not creditable.

Line 55. Net income (or loss). The amount in column (g) should equal line 1 of Analysis of Net Income (Loss) on page 5 of Form 1065.

Schedule K-2, Part III, and Schedule K-3, Part III (Other Information for Preparation of Form 1116 or 1118)

Section 1. R&E Expenses Apportionment Factors

This section requires the partnership to report information that a partner will use to allocate and apportion its R&E expense for foreign tax credit limitation purposes.

R&E expenses deducted under section 174 are definitely related to all income reasonably connected with relevant broad product categories of the taxpayer and are allocable to all items of gross income as a class related to such product categories. The product categories are determined by reference to the three-digit classification of the SIC code. In general, R&E expenses are apportioned based on either the gross income or sales methods. There are certain special rules if R&E expense is performed predominantly in a particular geographic area. See Regulations section 1.861-17.

R&E expenses are allocated and apportioned by the partner. See Regulations section 1.861-17(f)(1). This requires that the partnership reports to its partners the sales and gross income by SIC code according to source and separate category of income. This also requires that the partnership reports the amount of R&E expense performed in the United States and outside the United States.

Taxpayers that use the sales method for apportioning R&E expense are allowed to use Proposed Regulations section 1.861-17, provided the proposed regulations are applied consistently.

Line 1. Enter the gross sales that resulted in gross income for each statutory grouping. Such sales include both the partnership's sales and certain other parties' sales. See Regulations section 1.861-17(c)(2) and (c)(3). Sales of parties controlled by the partnership should be included in line 1 if such controlled parties can reasonably be expected to benefit from the R&E expense connected with the

product categories. This includes sales that benefit from the partner's R&E expenses if licensed through the partnership. Sales of uncontrolled parties are also taken into account if such sales involve intangible property that was licensed or sold to the uncontrolled party if the uncontrolled party can reasonably be expected to benefit from the R&E expense.

Line 2. Enter the gross income for each statutory grouping.

Line 3. Report the amount of 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. The total of the amounts on Schedule K-2, Part III, Section 1, line 3, must equal Schedule K-2, Part II, line 32. Similarly, the total of the amounts on Schedule K-3, Part III, Section 1, line 3, must equal Schedule K-3, Part II, line 32.

Note. Line 3 is not reported according to source or separate category.

Section 2. Interest Expense Apportionment Factors

This section requires the partnership to report information that a partner will use to allocate and apportion its interest expense for foreign tax credit limitation purposes.

With respect to corporate partners with an interest in the partnership of 10% or more, interest expense, including the partner's distributive share of partnership interest expense, is apportioned by reference to the partner's assets, including the partner's pro rata share of partnership assets. See Regulations section 1.861-9(e)(2). Interest expense is apportioned based on the average value of assets. See section 864(e) and Regulations section 1.861-9(g)(2)(i)(A). A taxpayer can use either the tax book value or the alternative book value of its assets. Regulations section 1.861-9(i). Under both methods, the partner uses the partnership's inside basis in its assets, including adjustments required under sections 734(b) and 743(b). See Regulations section 1.861-9(e)(2) and -9(e)(3). When reporting the asset that is the basis of stock in nonaffiliated 10% owned corporations, adjust such amount for earnings and profits (E&P). See Regulations section 1.861-12(c)(2)(i)(A).

Column (b). The partnership characterizes its pro rata share of the partnership assets that give rise to foreign branch category income as assets in the foreign branch category. See Regulations section 1.861-9(e)(10).

Line 1. Report the average of the beginning-of-year and end-of-year inside basis in the partnership's assets. See Regulations section 1.861-9(g)(2)(i)(A).

Line 2. Report the average of the beginning-of-year and end-of-year inside basis adjustments under sections 734(b) and 743(b).

Lines 3 and 4. Report reductions in the partnership's asset values to reflect the partnership's directly allocable interest under Regulations section 1.861-10(e) and Temporary Regulations section 1.861-10T. See also Temporary Regulations section 1.861-9T(e)(1).

Line 5. Report the average value of assets excluded from the apportionment formula. See section 864(e)(3).

Line 6. Individual partners who are general partners or who are limited partners with an interest in the partnership of 10% or more follow the same rules as corporate partners whose interest in the partnership is 10% or more except that their interest expense must be apportioned according to the interest expense classifications under sections 163 and 469. This includes reporting the assets according to such classifications. If the partnership has no such partners, the partnership need not complete Schedule K-2, Part III, Section 2, lines 6(b) through (d), or Schedule K-3, Part III, Section 2, lines 6(b) through (d).

Schedule K-3. If the partnership's partners are not limited to corporate partners, when completing Schedule K-3, Part III, Section 2, for the corporate partners with an interest of 10% or more in the partnership, do not complete lines 6(b) through (d).

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 partnership in certain foreign corporations. In determining its foreign tax credit limitation, a partner should disregard interest expense that is "properly allocable" to stock of a 10%-owned foreign corporation that has been characterized as a section 245A asset. See Section 904(b)(4) and Regulations section 1.904(b)-3(a)(1)(ii). The amount of properly allocable deductions is determined by treating the section 245A subgroup for each separate category as a statutory grouping for purposes of allocating and apportioning interest deductions on the basis of assets. Assets in a section 245A subgroup only include stock of a specified 10%-owned foreign corporation that has been characterized as a section 245A asset. The stock is characterized as a section 245A asset to the extent it generates income that would generate a dividends

received deduction under section 245A if distributed. This does not include income that is included as GILTI, subpart F income, or a section 956 inclusion or income described in section 245(a)(5) (which gives rise to a dividends received deduction under section 245 instead of section 245A).

In the case of a specified 10%-owned foreign corporation that is not a CFC, all of the value of its stock is potentially in a section 245A subgroup because the stock generally generates dividends eligible for the section 245A deduction (and cannot generate an inclusion under section 951(a)(1) or 951A(a)), if the partner meets the requirements for eligibility. See Regulations section 1.904(b)-3(c)(2). However, because the partnership may not have the information to determine if a partner is eligible for a section 245A deduction (for example, due to tiered ownership), the partner must determine to what extent the stock is treated as an asset in a section 245A subgroup.

With respect to a partnership-owned specified 10% foreign corporation that is not a CFC, the partnership will report on line 7, columns (a) through (e), the total value of the stock in all such foreign corporations. The value of the stock is the partnership's basis in the stock adjusted to take into account the E&P of the foreign corporations as explained in Regulations section 1.861-12(c)(2). The partnership must attach a statement with the following information for each foreign corporation for which adjusted basis is reported on line 7.

- Name of foreign corporation.
- EIN or other identifying number.
- Percentage of voting and value of stock owned by partnership in such foreign corporation.
- Value of the stock in such corporation included in each of the groupings in 6b through d (denoting separately each of those groupings).

If the specified 10%-owned foreign corporation is a CFC, a portion of the value of stock in each separate category and in the residual grouping for U.S. source income is subdivided between a section 245A and non-section 245A subgroup under the rules described in Regulations section 1.861-13(a)(5). However, because the partnership generally will not have the information to apply the stock characterization rules described in Regulations section 1.861-13(a)(5), the partner must apply those rules to characterize the stock.

With respect to partnership-owned CFCs, the partnership will report on line 8, column (f), the total value of its stock in all such foreign corporations. The value of the stock is the partnership's inside basis in the stock adjusted to take into account

the E&P of the foreign corporations as explained in Regulations section 1.861-12(c)(2). The partnership must attach a statement with the following information for each foreign corporation for which basis is reported on line 8.

- Name of foreign corporation.
- EIN or other identifying number.
- Percentage of voting and value of stock owned by partnership in such foreign corporation.
- Value of the stock in such corporation.

Section 3. Foreign Taxes

In Part III, Section 3, the partnership assigns foreign taxes paid or accrued (including on U.S. source income) to a separate category and source.

Attachment. As previously mentioned in the instructions for Schedule K-2, Part I, box 4 and Schedule K-3, Part I, box 4 (for distributive share), for each of the amounts listed in lines 1 through 3, attach a statement reporting 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).

Column (a). Enter the code for the type of tax.

Codes for Types of Tax

Code	Type of Tax
WHTD	Withholding tax on dividends
WHTP	Withholding tax on PTEP distributions
WHTB	Withholding tax on branch remittances
WHTR	Withholding tax on rents, royalties, and license fees
WHTI	Withholding tax on interest
ECI	Taxes paid or accrued to foreign countries or possessions on certain effectively connected income
OTHS	Other foreign taxes paid or accrued on sales income
OTHR	Other foreign taxes paid or accrued on services income
OTH	Other foreign taxes paid or accrued

Column (b). Taxes assigned to section 951A category. Taxes assigned to section 951A category income include taxes paid or accrued on amounts the

partnership is able to identify as PTEP distributions with respect to section 951A inclusions.

Column (f). Other category.

Foreign taxes paid or accrued to sanctioned countries. No credit is allowed for foreign taxes paid or accrued to certain sanctioned countries. Therefore, in column (f), there is no need to assign taxes paid or accrued to such countries to a source of income.

Foreign taxes related to PTEP resourced by treaty. If the partnership pays or accrues foreign taxes on receipt of an amount it is able to identify as a PTEP distribution, and such PTEP is with respect to U.S. source income included under section 951(a)(1) or section 951A and a partner chose to resource such income as foreign source income under a treaty, such taxes are included in column (f). Enter code "RBT" on the line after "category code."

Line 1. Enter in U.S. dollars the total foreign taxes (described in section 901 or section 903) that were paid or accrued by the partnership (according to its method of accounting for such taxes). Do not reduce the amount that you report on line 1 by the reductions reported on line 2.

If the partnership uses the cash method of accounting, check the "Paid" box and enter foreign taxes paid during the tax year on line 1. Report each partner's share on line 1 of Section 3 of Schedule K-3, Part III.

If the partnership uses the accrual method of accounting, check the "Accrued" box and enter foreign taxes accrued on line 1. Report each partner's share on line 1 of Section 3 of Schedule K-3, Part III.

Enter on a separate line, taxes paid or accrued to each country. Enter the two-letter code from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes).

Example 3. The facts are the same as in *Example 2*, earlier. USP uses the cash method of accounting and pays taxes of \$1,000 and \$3,000 to Countries XX and YY, respectively. USP completes Part III, Section 3, line 1, as follows.

Example 3 Table

			(a)	(e)
	Direct (901/903) foreign taxes	<input checked="" type="checkbox"/> Paid	Type of tax	Foreign
A	XX		OTHR	1,000
B	YY		OTHR	3,000

Line 2. Enter on line 2 a negative number for the sum of the taxes in the following categories.

- A. Taxes on foreign mineral income (section 901(e)).
- B. Reserved
- C. Taxes attributable to boycott operations (section 908).
- D. Reduction in taxes for failure to timely file (or furnish all of the information required on) Forms 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations, and 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships (section 6038(c)).
- E. Foreign income taxes paid or accrued during the current tax year with respect to splitter arrangements under section 909.
- F. Foreign taxes on distributions. For example, report taxes on dividends eligible for a deduction under section 245A and ineligible for credit under section 245A(d). Also, include taxes on a distribution of section 965 PTEP, a portion of which are not creditable. The partnership may be unable to determine the amount of a distribution that is attributable to non-previously taxed E&P or PTEP for which a foreign tax credit may be partially or entirely disallowed. However, it is important to track this amount as a tax on a distribution.
- G. Other. Attach a statement indicating the reason for the reduction.

There is no need to report the amounts on line 2 by country.

Line 3. Enter in U.S. dollars the change in foreign tax as a result of a foreign tax redetermination. See section 905(c) and Proposed Regulations sections 1.905-3 through -5. If the amount is less than the original foreign tax, report the change as a negative amount. If the amount is more than the original foreign tax, report the change as a positive amount. Report the U.S. tax year to which the foreign tax relates. This would be the U.S. tax year that includes the close of the foreign tax year to which the tax relates.

If there is more than one redetermination in a year with respect to different countries, report such redeterminations on separate lines. Enter the two-letter code from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes). Similarly, if there is more than one redetermination in a year with respect to the same country, but the redeterminations are related to different years, report such redeterminations on separate lines.

Example 4. The facts are the same as in *Example 3*, earlier. In Year 3, USP resolves a contest with the Country YY taxing authorities and reduces the Country

YY tax to \$2,000. In Year 3, USP reports on its Schedule K-2, Part III, Section 3, line 3, as follows.

Example 4 Table

			(a)	(e)
	Foreign tax redeterminations	Related tax year	Type of tax	Foreign
A	YY	Year 1	OTHR	(1,000)

Schedule K-2, Part IV, and Schedule K-3, Part IV (Other Foreign Transaction Information for U.S. Partners)

Section 1. Information on Section 250 Deduction With Respect to FDII

Note. Partners will use the following information to claim and compute a section 250 deduction with respect to FDII on Form 8993.

This section is used by the partnership to report information to a direct U.S. corporate partner (other than real estate investment trusts, regulated investment companies, and S corporations) or to a partner which is a partnership that has a direct or indirect U.S. corporate partner (other than real estate investment trusts, regulated investment companies, and S corporations) for purposes of determining the U.S. corporate partner's FDII. Section 250 allows a U.S. corporation a deduction for its FDII and a direct or indirect U.S. corporate partner may take into account certain activities of the partnership in computing the U.S. corporation's FDII. These instructions generally indicate how a partnership should complete Schedule K-2, Part IV, Section 1, and Schedule K-3, Part IV, Section 1. To calculate Schedule K-2, Part IV, Section 1, a partnership should aggregate the amounts on all Schedules K-3, Part IV, Section 1, using the same lines and columns.

Enter the amounts on the corresponding columns (a) through (e) of lines 1 through 6 and the totals on column (f) in U.S. dollars. Only total amounts are required in column (f), except for lines 3(a) through 3(c) (which require that all columns be used).

The partnership should determine and report the partner's share of each item of the partnership contained on this form in accordance with the partner's distributive share of the underlying item of income, gain, deduction, and loss of the partnership.

For purposes of this Part IV, Section 1 (of both K-2 and K-3), each place where general property is listed refers to amounts connected to the sale, lease, exchange, or other disposition of general property to a foreign person and, as established to the satisfaction of the Secretary, is for a foreign use as defined in Proposed Regulations section 1.250(b)-4(d).

For purposes of this Part IV, Section 1 (of both K-2 and K-3), each place where intangible property is listed refers to amounts connected to the sale, license, exchange, or other disposition of intangible property to a foreign person and, as established to the satisfaction of the Secretary, is for a foreign use as defined in Proposed Regulations section 1.250(b)-4(d).

For purposes of this Part IV, Section 1 (of both K-2 and K-3), each place where services is listed refers to amounts connected to services that, as established to the satisfaction of the Secretary, are provided to any person, or with respect to property, located outside the United States as defined in Proposed Regulations section 1.250(b)-5.

Line 1. Gross Receipts

Enter the amount, if any, of a partner's share of the partnership's gross receipts. Gross receipts means, with respect to a partnership, the gross receipts of the partnership for the partnership's tax year. In reporting the amount of a partner's share of the partnership's gross receipts, the partnership must separately state any information so that a direct or indirect U.S. corporate partner can distinguish between amounts of gross receipts the U.S. corporation would attribute to its gross DEI, as defined in Proposed Regulations section 1.250(b)-1, and amounts of gross receipts the U.S. corporation would not attribute to its gross DEI. For purposes of this Part IV, Section 1, amounts that are not attributable to gross DEI are those gross receipts used in the calculation of the following categories with respect to the direct or indirect U.S. corporate partner.

- Gross income under section 951(a)(1).
- The GILTI inclusion amount under Regulations section 1.951A-1(c).
- Financial services income under section 904(d)(2)(D) and Regulations section 1.904-4(e)(1)(ii).
- A dividend received from a CFC.
- Domestic oil and gas extraction income (defined as income described in section 907(c)(1) determined by substituting "within the United States" for "without the United States").
- Foreign branch income defined in section 904(d)(2)(J) and Regulations section 1.904-4(f)(2).

Line 1(a). General property. Enter the amount, if any, of the partner's share of the partnership's gross receipts from general property.

Line 1(b). Intangible property. Enter the amount, if any, of the partner's share of the partnership's gross receipts from intangible property.

Line 1(c). Services. Enter the amount, if any, of the partner's share of the partnership's gross receipts from services.

Line 2. COGS

Enter the amount, if any, of the partner's share of the partnership's cost of goods sold. Cost of goods sold means, with respect to a partnership, the cost of goods sold of the partnership for the partnership's tax year. In reporting the amount of a partner's share of the partnership's cost of goods sold, the partnership must separately state any information so a direct or indirect U.S. corporate partner can distinguish between the amount of cost of goods sold that the partner would attribute to gross receipts used in the calculation of gross DEI and the amount of cost of goods sold that the partner would not attribute to gross receipts used in the calculation of gross DEI.

Line 3. Foreign derived gross receipts

Enter the amount, if any, of the partner's share of the partnership's foreign derived gross receipts. Foreign derived gross receipts means, with respect to a partnership, gross receipts of the partnership for the partnership's tax year that are used to compute gross foreign-derived deduction eligible income (FDDEI) as defined in Proposed Regulations section 1.250(b)-1. For purposes of this calculation only, a partnership should assume that all gross receipts are attributable to gross DEI and that there are no COGS.

Line 3(a). General property. Enter the amount, if any, of the partner's share of the partnership's foreign derived gross receipts from general property.

Line 3(b). Intangible property. Enter the amount, if any, of the partner's share of the partnership's foreign derived gross receipts from intangible property.

Line 3(c). Services. Enter the amount, if any, of the partner's share of the partnership's foreign derived gross receipts from services.

Line 4. COGS Attributable to the Amount on Line 3

Enter the amount, if any, of the partner's share of the partnership's cost of goods sold (as reported on line 2) attributable to the amount on line 3. In making that determination, the partnership must attribute costs of goods sold to gross receipts in accordance with Proposed Regulations section 1.250(b)-1(d).

Line 5. Deductions Properly Allocable to the Amount on Line 1

Enter the amount, if any, of the partner's share of the partnership's deductions properly allocable to the amount on line 1. In reporting the amount of a partner's share of the partnership's deductions properly allocable to the amount on line 1, the partnership must separately state any information so a direct or indirect U.S. corporate partner can distinguish between deductions properly allocable to the amount on line 1 that the partner would attribute to its gross DEI and deductions properly allocable to the amount on line 1 that the partner would not attribute to gross DEI.

Line 5(a). General property. Enter the amount, if any, of the partner's share of the partnership's deductions properly allocable to the amount on line 1 from general property.

Line 5(b). Intangible property. Enter the amount, if any, of the partner's share of the partnership's deductions properly allocable to the amount on line 1 from intangible property.

Line 5(c). Services. Enter the amount, if any, of the partner's share of the partnership's deductions properly allocable to the amount on line 1 from services.

Line 6. Deductions Properly Allocable to the Amount on Line 3

Enter the amount, if any, of the partner's share of the partnership's deductions properly allocable to the amount on line 3.

Line 6(a). General property. Enter the amount, if any, of the partner's share of the partnership's deductions properly allocable to the amount on line 3 from general property.

Line 6(b). Intangible property. Enter the amount, if any, of the partner's share of the partnership's deductions properly allocable to the amount on line 3 from intangible property.

Line 6(c). Services. Enter the amount, if any, of the partner's share of the partnership's deductions properly allocable to the amount on line 3 from services.

Line 7. Partnership qualified business asset investment. Enter the amount, if any, of the partnership qualified business asset investment (QBAI). Partnership QBAI means partnership QBAI as defined in Proposed Regulations section 1.250(b)-2. For purposes of this calculation only, a partnership should assume that all tangible property as defined in Proposed Regulations section 1.250(b)-2 is partnership specified tangible property as defined in Proposed Regulations section 1.250(b)-2. However, in reporting the amount of a partner's share of the partnership QBAI, the partnership must separately state any information so a direct or indirect U.S. corporate partner can distinguish between the amount of the adjusted bases in a partnership's tangible property that the U.S. corporation would include in its adjusted bases in the partnership specified tangible property and the amount of the adjusted bases in the partnership's tangible property that the U.S. corporation would not include in its adjusted bases in the partnership specified tangible property.

Section 2. Other Tax Information

Note. Partners will use the following information to claim and compute a foreign tax credit on Forms 1116 or 1118.

This section provides other tax information that a partner needs to compute its foreign tax credit limitation.

Line 1. For partnerships other than publicly traded partnerships, report the total of all partner's shares of the net positive income adjustments resulting from all section 743(b) basis adjustments. Net positive income adjustments from all section 743(b) basis adjustments means the excess of all section 743(b) adjustments allocated to the partner that increase the partner's taxable income over all section 743(b) adjustments that decrease the partner's taxable income. Attach a statement showing each section 743(b) basis adjustment making up the total and identify the assets to which it relates and the separate category and source of the income generated by the assets. Make sure to include the class of gross income or deduction, for example, sales income, interest income, or depreciation deduction. The partnership may group these 743(b) basis adjustments by asset category or description in cases where multiple assets are affected if the assets generate the same separate category and source of income. The section 743(b) positive income adjustments should be included as relevant in other parts of the Schedule K-2. For example, the section 743(b) income adjustments should be

reflected as part of the total depreciation reported on Part II, Section 2.

Line 2. For partnerships other than publicly traded partnerships, report the total of all partners' shares of the net negative income adjustment resulting from all section 743(b) basis adjustments. Net negative income adjustments from all section 743(b) basis adjustments means the excess sum of all section 743(b) adjustments allocated to the partner that decrease partner taxable income over all section 743(b) adjustments that increase partner taxable income. Attach a statement showing each section 743(b) basis adjustment making up the total and identify the assets to which it relates and the separate category and source of the income generated by the assets. Make sure to include the class of gross income or deduction, for example, sales income, interest income, or depreciation deduction. The partnership may group these 743(b) basis adjustments by asset category or description in cases where multiple assets are affected if the assets generate the same separate category and source of income. The section 743(b) negative income adjustments should be included as relevant in other parts of the Schedule K-2. For example, the section 743(b) income adjustments should be reflected as part of the total depreciation reported on Part II, Section 2.

Section 3. Distributions From Foreign Corporations to Partnership

Note. Partners will use the following information to claim and compute a foreign tax credit on Forms 1116 or 1118.

Note. Partners will use the following information to exclude distributions of PTEP from gross income and report foreign currency gain or loss with respect to PTEP distributions on Forms 1040 and 1120, and also to claim and compute a dividends received deduction under section 245A on Form 1120.

Use Section 3 of the Schedule K-2, Part IV, to report the distributions made by foreign corporations to the partnership. Use Section 3 of the Schedule K-3, Part IV, to report the partner's share of the amounts reported on Section 3 of Schedule K-2, Part IV.

Rows A–O. Use rows A–O to report information with respect to each distribution by a foreign corporation to the partnership or to another partnership through which the partnership is a direct or indirect partner and owns (within the meaning of section 958(a)) stock of the foreign corporation. Each row should relate to a chain through which the partnership owns (within the meaning of

section 958(a)) stock in the foreign corporation. For example, if a partnership (upper-tier partnership) directly owns 50% of the foreign corporation's stock and indirectly owns (within the meaning of section 958(a)) 50% of the foreign corporation's stock through another partnership (lower-tier partnership), then distributions by the foreign corporation to each of the upper-tier partnership and the lower-tier partnership are to be reported on separate rows on the upper-tier partnership's Section 3 of Schedule K-3. Rows for distributions with respect to a partnership's direct ownership of foreign corporation stock should be listed before rows for distributions with respect to a partnership's indirect ownership (through a lower-tier partnership) of foreign corporation stock. Do not report distributions to the extent that they are attributable to PTEP in annual PTEP accounts of the partnership. However, if the partnership is a domestic partnership, distributions by the foreign corporation to the partnership that are attributable to PTEP in annual PTEP accounts of the partnership should be properly reflected on the Schedules J of the Form 5471 for the foreign corporation. The partnership should provide this information to its partners as appropriate.

Note. If additional rows are required, attach a schedule that looks like the current version of Section 3.

Column (b). Enter the EIN or reference ID number of the distributing foreign corporation. For basic information about reference ID numbers (including the requirements as to the characters permitted), see the Instructions for Form 1118.

Column (c). Enter the year, month, and day in which the distribution was made using the format YYYYMMDD.

Column (d). Enter the functional currency of the distributing foreign corporation as reported on Form 5471, page 1, item 1h.

Column (f). This represents the partnership's share of the total of amounts distributed in functional currency reported on Form 5471, Schedule R, column (d). It should equal the partnership's share of the total reported on line 9 of all Schedules J on a separate category of income basis.

Column (g). Enter the exchange rate on the date of distribution used to translate the amount of the distribution in functional currency to U.S. dollars. See section 989(b)(1). Report the exchange rate using the "divide-by convention" specified under *Reporting exchange rates on Form 5471* in the Instructions for Form 5471.

Column (h). Enter the amount of the distribution in U.S. dollars. Translate

column (e) using the spot rate reported in column (g).

Column (i). Enter the amount of E&P distributed in U.S. dollars. Translate column (f) using the spot rate reported in column (g).

Column (j). If the distributing foreign corporation is a qualified foreign corporation, check the box. See section 1(h)(11)(C).

Schedule K-2, Part V (Information on Partners' Section 951(a)(1) and Section 951A Inclusions), and Schedule K-3, Part V (Information on Partner's Section 951(a)(1) and Section 951A Inclusions)

Note. Partners will use the following information to complete Form 8992 and Forms 1040 and 1120 with respect to subpart F inclusions, section 951(a)(1)(B) inclusions, and section 951A inclusions.

Use Part V to report the partners' subpart F income inclusions, section 951(a)(1)(B) inclusions, and their share of items of CFCs needed to determine the partners' GILTI inclusions, with respect to CFCs owned, directly or indirectly, by the partnership. Use Schedule K-3, Part V, to report the partner's subpart F income inclusions, section 951(a)(1)(B) inclusions, and its share of items of CFCs needed to determine the partner's GILTI inclusion, with respect to CFCs owned, directly or indirectly, by the partnership.

For purposes of completing Part V of both Schedules K-2 and K-3, assume that each partner in the partnership is a U.S. shareholder of the CFCs listed in column (a) (in the case of a domestic partnership, assume also that the partnership relies on Proposed Regulations section 1.958-1(d), which treats a domestic partnership as not owning stock of a foreign corporation within the meaning of section 958(a) for purposes of section 951 or section 951A), and, therefore, each partner is required to include in gross income its share of the CFC's subpart F income (subpart F income inclusion), an amount determined under section 956 with respect to the CFC (section 951(a)(1)(B) inclusion), and its GILTI.

A partner's GILTI is calculated based upon its share of the following amounts for each CFC: tested income, tested loss, QBAI, tested loss QBAI amount, tested interest income, and tested interest expense (collectively, GILTI items) (a CFC's subpart F income and GILTI items, CFC items).

A partner's share of a CFC's subpart F income, amounts used to determine its

section 956 amount with respect to a CFC, and a CFC's GILTI items may not be limited to the partner's share of such income, amounts, or items through its ownership (within the meaning of section 958(a)) in the partnership. However, for purposes of completing Part V of both Schedules K-2 and K-3, use only the partner's share of a CFC's subpart F income, amounts used to determine its section 956 amount with respect to a CFC, and a CFC's GILTI items through the partner's ownership in the partnership.

A partner's share through its ownership in the partnership of subpart F income and GILTI items is generally anticipated to be calculated by multiplying the percentage in column (c) by the amount of subpart F income or GILTI item, respectively. For example, in general, a partner's share through its ownership interest in the partnership of tested income in column (h) is anticipated to be calculated by multiplying the percentage in column (c) by the amount of tested income in column (f).

A partnership may not file a Form 5471, Schedule I-1, for each CFC that it owns (within the meaning of section 958(a)). In such case, the partnership will still need to provide amounts with respect to the CFC as if the partnership filed Form 5471, Schedule I-1, for that CFC.

Line a. Complete a separate Part V for each applicable separate category of income. In the case of a CFC listed in column (a) of more than one Part V, complete columns (k) through (m) for such CFC on only one Part V. Enter the appropriate code on line a.

Codes for Categories of Income

Code	Category of Income
PAS	Passive Category Income
901j	Section 901(j) Income
GEN	General Category Income

Line b. If any portion of a CFC item is U.S. sourced, complete a separate Part V for U.S.-sourced CFC items, and check the box on line b on such separate Part V.

Line 1. Use lines A–K to report information with respect to each CFC owned, directly or indirectly, by the partnership. Each line should relate to a chain through which the partnership owns (within the meaning of section 958(a)) stock in the CFC. For example, if a partnership directly owns 50% of the CFC's stock and indirectly owns 50% of the CFC's stock through another partnership, the CFC should be listed on two lines with one line related to the

partnership's direct ownership and the other line related to the partnership's indirect ownership. Lines related to a partnership's direct ownership of CFCs should be listed before lines related to a partnership's indirect ownership of CFCs. If additional lines are required, attach a schedule that looks like the current version of Part V.

Column (a). Enter the name of each CFC the stock of which the partnership owns (within the meaning of section 958(a)).

Column (b). Enter the EIN or reference ID number of the CFC. For basic information about reference ID numbers (including the requirements as to the characters permitted), see the Instructions for Form 1118.

Column (c). Enter the partners' share of CFC items through the partners' ownership in the partnership (aggregate share). See Regulations sections 1.951-1(b), 1.951-1(e), and 1.951A-1(d)(1) for rules on determining the partners' share.

Column (d). Enter the aggregate share of the amount of the CFC's subpart F income, if any. Note that an amount determined under section 956(a) is not considered subpart F income. For guidance on computing a CFC's subpart F income and the partners' share of a CFC's subpart F income, see Worksheet A in the Instructions for Form 5471.

Column (e). Enter the amount determined under section 956 with respect to the partners that relate to the partners' ownership in the partnership. Thus, in determining the section 956 amount, use only the partners' share through their ownership in the partnership of:

- The average of the amounts of U.S. property held (directly or indirectly) by the CFC as of the close of each quarter of such tax year, and
 - The applicable earnings of the CFC.
- Do not reduce the amount reported in column (e) for any reduction to the partners' section 956 amount under Regulations section 1.956-1(a)(2). For guidance on computing the partners' share of a CFC's earnings invested in U.S. property, see Worksheet B in the Instructions for Form 5471.

Column (f). Enter the CFC's tested income, if any, from line 6 of Form 5471, Schedule I-1, for each CFC.

Column (g). Enter the CFC's tested loss, if any, from line 6 of Form 5471, Schedule I-1, for each CFC.

Column (h). Enter the aggregate share of the tested income listed in column (f) for each CFC with tested income.

Column (i). Enter the aggregate share of the tested loss listed in column (g) for each CFC with tested loss.

Column (j). If the CFC has a tested loss in column (g), enter zero. If the CFC has tested income in column (f), enter the aggregate share of QBAI. A CFC's QBAI is reported on Form 5471, Schedule I-1, line 8.

Column (k). If the CFC has tested income in column (f), enter zero. If the CFC has a tested loss in column (g), enter the aggregate share of the CFC's tested loss QBAI amount. See Regulations section 1.951A-4(b)(1)(iv). A CFC's tested loss QBAI amount is reported on Form 5471, Schedule I-1, line 9c.

Column (l). Enter the aggregate share of the CFC's tested interest income. A CFC's tested interest income is reported on Form 5471, Schedule I-1, line 10c.

Column (m). Enter the aggregate share of the CFC's tested interest expense. A CFC's tested interest expense is reported on Form 5471, Schedule I-1, line 9d.

Schedule K-2, Part VI, and Schedule K-3, Part VI (Information to Complete Form 8621)

Note. Partners will use the following information to complete Form 8621.

Use Part VI of Schedule K-2 to report certain information with respect to foreign corporations owned, directly or indirectly, by the partnership that constitute passive foreign investment companies (PFICs), including PFICs with respect to which no election has been made (section 1291 PFIC) and PFICs with respect to which Qualified Electing Fund (QEF), Mark-to-Market (MTM), Qualifying Insurance Company (QIC), or other elections have been made. Use Part VI of Schedule K-3 to report the partner's share, through its ownership in the partnership, of the amounts reported on Part VI of Schedule K-2.

Schedule K-2, Part VI, and Schedule K-3, Part VI, are used to assist certain U.S. partners, that indirectly own the PFIC through their interest in the partnership, in satisfying the reporting requirements of section 1298(f) and the regulations thereunder that require certain U.S. persons to file Form 8621 (or any successor form) as well as to determine income inclusions with respect to certain PFICs. For additional rules on the requirement to file Form 8621, as well as certain filing exceptions, see Regulations section 1.1298-1.

Complete a separate line in Sections 1 and 2 for each PFIC that the partnership owns directly or indirectly, including

through another domestic partnership. For additional information on determining indirect ownership of PFICs, see Regulations section 1.1291-1(b)(8).

The partnership may have additional required information with respect to a PFIC for certain columns—these include Section 1, column (g), and Section 2, columns (e) through (j) and (l) through (o) (for example, scenarios where the partnership may have multiple different events with respect to the PFIC in the same tax year, such as multiple dates of acquisitions of, or distributions with respect to, the PFIC stock). In that case, complete another Schedule K-2, Part VI, and Schedule K-3, Part VI, for each PFIC, including the PFIC's name and EIN or reference ID number, and the columns from Section 1 or 2 that may require additional information.

If the partnership has additional PFICs for which to report information that do not fit on a single Part VI of Schedule K-2, and Part VI of Schedule K-3, it can attach additional Parts VI of Schedule K-2, and Parts VI of Schedule K-3, as needed.

Section 1. General Information on Passive Foreign Investment Company (PFIC) or Qualified Electing Fund (QEF)

Columns (a) through (c). Enter the name, U.S. EIN or reference ID number, and address of each PFIC held directly or indirectly by the partnership during its tax year.

For basic information about reference ID numbers (including the requirements as to the characters permitted), see the Instructions for Form 8621.

Columns (d) and (e). Enter the beginning and end of the PFIC's tax year using the format YYYYMMDD.

Column (f). Enter each class of shares in the PFIC owned by the partnership using the following codes.

Codes for Classes of PFIC Shares

Code	Class of PFIC Shares
COM	Common or Ordinary Shares
PRE	Preferred Shares
OTH	Other Equity Interest
VAR	Multiple Classes of Shares or Equity Interests

Column (g). If the partnership acquired any PFIC shares for which a description was provided in column (f) during its tax year, provide the date(s) of acquisition of such shares using the format YYYYMMDD. If the partnership acquired

no shares in a particular PFIC during its tax year, leave this column blank with respect to that PFIC.

Column (h). Enter the total number of all classes of shares of the PFIC the partnership owned during its tax year.

Column (i). Enter the total value of all shares in the PFIC held by the partnership at the end of its tax year. If the PFIC shares are not publicly traded, the partnership may rely upon periodic account statements provided at least annually to determine the value of a PFIC unless the partnership has actual knowledge or reason to know based on readily accessible information that the statements do not reflect a reasonable estimate of the PFIC's value and the information provides a more reasonable estimate of the PFIC's value.

Column (j). If the partnership is a U.S. partnership and has made any of the following elections with respect to the PFIC at the partnership level, indicate which election was made using the following codes.

Partnership Election Codes

Code	Partnership Election Type
QEF	Qualified Electing Fund Election
MTM	Mark-to-Market Election
QIC	Qualifying Insurance Company Election
Blank	No election

Column (k). Check the box if the PFIC has indicated that it has documented eligibility to be treated as a QIC. See section 1297(f) for additional information on QIC elections.

Column (l). Check the box if the PFIC has indicated that its shares are "marketable stock." See section 1296(e) and Regulations section 1.1296-2 for additional information on "marketable stock."

Column (m). Check the box if the PFIC also constitutes a CFC within the meaning of section 957 (PFIC/CFC). Generally, a foreign corporation is a CFC if more than 50% of either the total combined voting power of all classes of stock entitled to vote or the total value of the stock of the corporation is owned (within the meaning of section 958(a)) or is considered as owned by applying the rules of section 958(b) by U.S. shareholders. For this purpose, a U.S. shareholder is a U.S. person (as defined in section 957(c)) who owns (within the meaning of section 958(a)), or is considered as owning by applying the rules of ownership of section

958(b), 10% or more of the total combined voting power of all classes of stock entitled to vote, or 10% or more of the total value of shares of all classes of stock of such foreign corporation.

Column (n). If the box in column (m) is checked with respect to a PFIC/CFC, enter the PFIC/CFC's accumulated post-1986 E&P, computed in accordance with sections 964(a) and 986. If the box in column (m) is not checked with respect to a PFIC, leave this column blank with respect to that PFIC.

Column (o). Check this box if this is the first year of the partnership's holding period in stock of the foreign corporation and the partnership has determined the foreign corporation is a PFIC under the income or asset test of section 1297(a). Check this box if the foreign corporation was a PFIC in a prior tax year of the partnership's holding period, and the partnership has not determined that the foreign corporation is a "former PFIC" within the meaning of Regulations section 1.1291-9(j)(2)(iv) or if the foreign corporation has not represented to the partnership—in financial disclosures or otherwise—that it no longer continues to satisfy the income or asset test of section 1297(a). However, even if the foreign corporation was a PFIC in a prior tax year of the partnership's holding period, do not check this box if the partnership determines that the foreign corporation constitutes a "former PFIC" or if the foreign corporation has represented to the partnership that it no longer continues to satisfy the income or asset test of section 1297(a).

Section 2. Additional Information on PFIC or QEF—General Information

Columns (a) and (b). Enter the name and U.S. EIN (or reference ID number) of each PFIC held directly or indirectly by the partnership during its tax year.

QEF Information

Columns (c) and (d). Enter the partnership's share of the total ordinary earnings and net capital gain (as defined in Regulations section 1.1293-1(a)(2)) of the PFIC for its tax year in which or with which the tax year of the PFIC ends. The PFIC should provide the partnership with a statement that provides information to assist the partnership in determining these amounts. See Regulations section 1.1295-1(g) for additional information on annual PFIC statements. A domestic partnership should provide this information for any PFIC with respect to which it, or another domestic partnership which it owns, has made a QEF election.

This information should not be additionally reported on either Schedule K or as a partner's distributive share item on Schedule K-1, Part III. A foreign partnership should provide this information if it has received an annual information statement with respect to the PFIC, unless it knows that no direct or indirect partner has made a QEF election with respect to the PFIC.

MTM Information

Columns (e) and (f). A domestic partnership should provide this information for any PFIC with respect to which it, or another domestic partnership which it owns, has made an MTM election. This information should not be additionally reported on either Schedule K or as a partner's distributive share item on Schedule K-1, Part III. A foreign partnership should provide this information if it has checked the box in Section 1, column (l), unless it knows that no direct or indirect partner has made an MTM election with respect to the PFIC.

Section 1291 and Other Information

Note. This information is generally to assist shareholders of section 1291 PFICs complete Form 8621, though it may be relevant to PFICs with respect to which a QEF, MTM, or other election has been made by the partnership or partner. Accordingly, the partnership must generally complete columns (g) through (o) with respect to each PFIC which it owns directly or indirectly. See the instruction for column (k) regarding reporting distributions from PFICs with respect to which the partnership has made a QEF or MTM election.

Column (g). Enter the date(s) on which the partnership initially acquired each block of stock in the PFIC using the format YYYYMMDD.

Column (h). Enter the total amount of cash and the fair market value of any other property distributed to the partnership by the PFIC during the tax year, if any. See Regulations section 1.1294-1T for additional information on deemed distributions by QEFs.

Column (i). Enter the date(s) of distribution of the amounts entered in column (h) using the format YYYYMMDD.

Column (j). Enter the total creditable foreign taxes attributable to a distribution from the PFIC. See section 1291(g) and the instructions for Form 8621, Part V, line 16d, for additional information on creditable foreign taxes attributable to PFIC distributions, including apportioning creditable foreign taxes to the portion of a distribution which constitutes an excess

distribution and certain rules related to creditable foreign taxes on a disposition of PFIC stock.

Note. Creditable foreign taxes entered in column (j) do not include taxes attributable to QEF inclusions under section 1293(f). Enter only creditable foreign taxes within the meaning of section 1291(g) in column (j). See the instructions for Part VII regarding deemed paid foreign tax credits under section 960, including for inclusions with respect to a QEF under section 1293(f).

Column (k). Enter the total amount of distributions the partnership received from the PFIC in the 3 preceding tax years, or, if shorter, the total amount of distributions the partnership received during its holding period of the PFIC stock. However, do not enter any amount in this column with respect to a PFIC for which the partnership has made a QEF or MTM election.

Schedule K-3. Enter the partner's share, through its ownership in the partnership, of the total amount of distributions from the PFIC in the partnership's 3 preceding tax years (or less, if the partnership has held the PFIC stock for less than 3 years). If the partner acquired its partnership interest after the date the partnership acquired the PFIC shares, the partner's holding period may be different than the partnership's holding period.

Column (l). Enter the date(s) on which the partnership disposed of any block of stock in the PFIC during the partnership's tax year, if any, using the format YYYYMMDD.

Column (n). If the partnership disposed of any block of stock in the PFIC during the partnership's tax year, enter the partnership's tax basis in the shares of the PFIC on the date of disposition.

Schedule K-3. Enter the partner's share, through its ownership in the partnership, of the partnership's tax basis in the PFIC shares. The partner's basis in the PFIC shares should include any applicable partner-specific adjustment, such as section 743(b) adjustments or adjustments made under the PFIC regime. See section 1296(b) and Regulations sections 1.1297-3 and 1.1298-3 for adjustments made under the PFIC regime.

Column (o). Enter the partnership's gain or loss on the disposition of PFIC shares. Generally, this should be column (m) minus column (n).

Schedule K-3. Enter the partner's share of the partnership's gain or loss on the disposition of PFIC shares. Generally, this should be column (m) minus column (n).

Schedule K-2, Part VII (Partnership's Interest in Foreign Corporation Income (Section 960)), and Schedule K-3, Part VII (Partner's Share of Partnership's Interest in Foreign Corporation Income (Section 960))

Note. Partners will use the following information to claim a deemed paid foreign tax credit on Form 1118.

Schedule K-2, Part VII, and Schedule K-3, Part VII, must be completed if the partnership is a U.S. shareholder, as defined in section 951(b), of a CFC, and the partnership has at least one partner that is eligible to claim a deemed paid foreign tax credit. Part VII might also be completed if the partnership has inclusions with respect to a PFIC. If the partnership does not have such a partner but is notified by a pass-through entity that is a direct or indirect partner in the filing partnership that such pass-through entity has at least one partner that is eligible to claim the credit, then the filing partnership must complete Schedule K-2, Part VII, and Schedule K-3, Part VII.

In general, a domestic corporate U.S. shareholder of a CFC is deemed to pay all or a portion of the foreign income taxes paid or accrued by the CFC that is properly attributable to subpart F income or tested income of the CFC that the U.S. shareholder includes in gross income. See section 960(a) and (d). See also section 1293(f) with respect to inclusions with respect to a PFIC. The domestic corporate U.S. shareholder may claim a credit for such foreign taxes, subject to certain limitations. Individuals, estates, and trusts may also claim a foreign tax credit for foreign income taxes deemed paid with respect to a CFC. However, they must make an election under section 962.

To calculate the foreign taxes deemed paid by a corporate U.S. shareholder, 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). 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. 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 Part VII.

The partnership must report its share of the CFC's net income by income groups in Part VII. Each income group must be reported by the foreign country or U.S. possession within which the gross income is sourced. The partnership reports each partner's share of the net income in the income group on Schedule K-3, Part VII.

Line A. On line A, enter the EIN or reference ID number of the CFC as listed on Form 5471. If a partnership is a U.S. shareholder with respect to more than one CFC, the partnership must complete a separate Part VII with respect to each CFC.

Line B. File a separate Schedule K-2, Part VII, for net income of the CFC in each separate category. Use the applicable code from the table below.

Category of Income Codes

Code	Category of Income
PAS	Passive Category Income
901j	Section 901(j) Income
GEN	General Category Income

Line C. With respect to passive category income, a separate Schedule K-2 and Schedule K-3, Part VII, must be completed for each applicable grouping under Regulations section 1.904-4(c). This includes the following groups in Regulations section 1.904-4(c)(3).

- (i) All passive income received during the tax year that is subject to a withholding tax of 15% or greater shall be treated as one item of income.
- (ii) All passive income received during the tax year that is subject to a withholding tax of less than 15% (but greater than zero) shall be treated as one item of income.
- (iii) All passive income received during the tax year that is subject to no withholding tax or other foreign tax shall be treated as one item of income.
- (iv) All passive income received during the tax year that is subject to no withholding tax but is subject to a foreign tax other than a withholding tax shall be treated as one item of income.

Each group of foreign personal holding company income must be reported separately by the QBU.

The partnership should use the following codes to report each of these groupings for each QBU.

- Regs. sec. 1.904-4(c)(3)(i).
- Regs. sec. 1.904-4(c)(3)(ii).
- Regs. sec. 1.904-4(c)(3)(iii).
- Regs. sec. 1.904-4(c)(3)(iv).

Example 5. In Year 1, USP, a domestic partnership, wholly owns foreign corporation, CFC, with reference ID number 1234. For the Year 1 tax year, CFC has the following foreign source income.

Example 5, Foreign Corporation CFC's Foreign Source Income

	Tax	Country Code	Net Income
Foreign Branch Passive Interest Income	20% withholding tax	XX	100u
Passive Rental Income	10% withholding tax	YY	50u
General Category Tested Income	No tax	ZZ	300u

USP completes Schedule K-2, Part VII, as follows.

Example 5, Partnership USP's 1st Schedule K-2, Part VII

A 1234		
B PAS		
C Regs. sec. 1.904-4(c)(3)(i)		
	(a) Country Code	(b) Partnership's Share of Net Income
1 Subpart F Income Groups		
a Dividends, interest, rents, royalties, & annuities (Total)		
i QBU Foreign Branch	XX	100u

USP completes another Schedule K-2, Part VII, as follows.

Example 5, Partnership USP's 2nd Schedule K-2, Part VII

A 1234		
B PAS		
C Regs. sec. 1.904-4(c)(3)(ii)		
	(a) Country Code	(b) Partnership's Share of Net Income
1 Subpart F Income Groups		
a Dividends, interest, rents, royalties, & annuities (Total)		
i CFC	YY	50u

USP completes a third Schedule K-2, Part VII, as follows.

Example 5, Partnership USP's 3rd Schedule K-2, Part VII

A 1234		
B GEN		
	(a) Country Code	(b) Partnership's Share of Net Income
3 Tested Income Group (Total)		
i CFC	ZZ	300u

USP also completes Schedule K-3, Part VII, with each partner's share of the partnership's net income in each income group.

Line D. If net income in an income group is sourced from more than one country, check the box on line D, and attach a statement to both Form 1065 and Schedule K-3 (for distributive share) indicating the amount of net income in the income group sourced to a particular country. However, enter the total foreign source income (sum of income from all countries) in column (b) and enter "OC" in column (a).

Example 6. In Year 1, USP, a domestic partnership, wholly owns foreign corporation, CFC, with reference ID number 1234. CFC has general category foreign source foreign base company sales income (FBCSI) with respect to Country A of 100u and general category foreign source FBCSI with respect to Country B of 50u. The country code for Country A is "AA" and the country code for Country B is "BB." On Schedule K-2, Part VII, line A, USP enters CFC's reference ID of 1234. On line B, USP enters "GEN." On

line D, USP checks the box after the instruction "Check the box and attach a statement if there is more than one source country for a line (see instructions)." In addition, on line 1f, USP reports "OC" in column (a) and reports 150u in column (b).

USP attaches to Form 1065 the following schedule.

Example 6 Table

	(a) Country Code	(b) Partnership's Share of Net Income
1 Subpart F Income Groups		
f Foreign Base Company Sales Income	AA	100u
f Foreign Base Company Sales Income	BB	50u

USP also completes Schedule K-3, Part VII, with each partner's share of the partnership's net income in the subpart F income group. USP attaches to Schedule K-3 the same schedule it attaches to Form 1065, however, with each partner's share of the subpart F income groups by country.

Line E. The partnership should check the box and complete a separate Part VII for U.S. source income in each separate category.

Line F. If the foreign corporation has foreign oil and gas extraction income (FOGEI) or foreign oil related income (FORI), the partnership should check the box and complete a separate Part VII indicating the amount of FOGEI and FORI in each grouping.

Schedule K-2, Part VIII (Partners' Information for Base Erosion and Anti-Abuse Tax (Section 59A)), and Schedule K-3, Part VIII (Partner's Information for Base Erosion and Anti-Abuse Tax (Section 59A))

Note. Partners will use the following information to complete Form 8991. This Part VIII of Schedule K-2 and Part VIII of Schedule K-3 must be completed by a partnership to assist its partners in determining if they are subject to the Base Erosion and Anti-Abuse Tax (BEAT), and to compute their base erosion and anti-abuse tax, if any. This information includes the partner's share of the partnership's gross receipts, the partner's amount of base erosion payments made through the partnership, and the partner's base erosion tax benefits. The BEAT is

generally levied on certain large corporations that have deductions and certain other items paid or accrued to foreign related parties (a base erosion payment) that are greater than 3% of their total deductions (2% in the case of certain banks or registered securities dealers), a determination referred to as the base erosion percentage test. Partnerships are not subject to the BEAT; however, corporate partners of a partnership that are applicable taxpayers under Regulations section 1.59A-2 may be subject to the BEAT. Except for purposes of determining a partner's base erosion tax benefits under Regulations section 1.59A-7(d)(1), and whether a taxpayer is a registered securities dealer, BEAT determinations are made at the partner level. See Regulations section 1.59A-7 for further information regarding the application of section 59A to partnerships and the Instructions for Form 8991 for additional information on whether a corporate partner is an applicable taxpayer subject to the BEAT.

For the partnership to complete Schedule K-2, Part VIII, and Schedule K-3, Part VIII, the foreign related parties of each partner must be identified, subject to the exception for small partners. It is expected that the partnership will collaborate with its partners to identify the foreign related parties of each partner. A foreign related party with respect to the partner is a foreign person that is:

- Any 25% owner of the applicable taxpayer (as defined in Regulations section 1.59A-1(b)(17)(ii)(A)),
- Any person who is related (within the meaning of section 267(b) or 707(b)(1)) to the applicable taxpayer or any 25% owner of the applicable taxpayer, or
- Any other person who is related to the applicable taxpayer within the meaning of Regulations section 1.59A-1(b)(17)(i)(C).

Exception for small partners. Part VIII of Schedule K-3 is not required to be prepared by the partnership for small partners meeting the following 3 requirements.

1. The partner's interest in the partnership represents less than 10% of the capital and profits of the partnership at all times during the tax year.
2. The partner is allocated less than 10% of each partnership item of income, gain, loss, deduction, and credit for the tax year.
3. The partner's interest in the partnership has a fair market value of less than \$25 million on the last day of the partner's tax year, determined using a reasonable method.

See Regulations section 1.59A-7(d)(2) for further information regarding the

application of the exception for small partners.

Exception for certain other partners. The partnership does not need to complete Schedule K-3, Part VIII, for a corporate partner that is an S corporation.

Section 1. Applicable Taxpayer

Lines 1 through 4. Enter the partnership's gross receipts for the current year and each of the 3 preceding tax years. For purposes of determining gross receipts of a partnership which has an interest in a foreign entity, include the foreign entity's gross receipts only when such gross receipts are taken into account when determining the foreign entity's income effectively connected with a U.S. trade or business ("ECI"). The determination of the partnership's gross receipts is made in accordance with Regulations section 1.448-1T(f)(2)(iv).

Schedule K-3. For purposes of section 59A, each partner in a partnership includes on its Schedule K-3, Part VIII, the share of partnership gross receipts in proportion to the partner's distributive share (as determined under sections 704(b) and (c)) of items of gross income that were taken into account by the partnership under section 703 or 704(c) (such as remedial or curative items under Regulations sections 1.704-3(c) or (d)).

Line 5. Amounts included in the denominator of the base erosion percentage as described in Regulations section 1.59A-2(e)(3). Enter the amount of deductions and other items allocated to the partners from the partnership that will be included in the denominator of the partners' base erosion percentage. For a description of deductions that are not included in the denominator, see Regulations section 1.59-2(e)(3)(ii).

Section 2. In General Base Erosion Payments and Base Erosion Tax Benefits

Column (b). Base erosion payments. For purposes of determining whether a payment or accrual by a partnership is a base erosion payment, any amount paid or accrued by the partnership is treated as paid or accrued by each partner based on the partner's distributive share of the item of deduction with respect to that amount. A partner that is an applicable taxpayer has a base erosion payment for any amount paid or accrued by the partnership to a foreign person (as defined in Regulations section 1.59A-1(b)(10)) that is a related party to the partner (as defined in Regulations section 1.59A-1(b)(12)) with respect to which a deduction is allowable under chapter 1 and for certain other items

in lines 13 and 15. See Regulations section 1.59A-3 and the Instructions for Form 8991 for more information on the definition of a base erosion payment.

Column (c). Base erosion tax benefits. A partner's distributive share of any deduction or reduction in gross receipts attributable to a base erosion payment is the partner's base erosion tax benefit. A partner's base erosion tax benefits are determined separately for each asset, payment, or accrual, as applicable, and are not netted with other items. A partner's base erosion tax benefit may be more than the partner's base erosion payment (for example, in the case of special allocations made by the partnership). See the instructions for Form 8991 and Regulations section 1.59A-7(d) for further information concerning a partner's base erosion tax benefits.

General. For line 8, columns (b) and (c); line 9, columns (b) and (c); line 10(a), columns (b) and (c); line 11, columns (b) and (c); line 12, columns (b) and (c); line 13, columns (b) and (c); line 14(a), columns (b) and (c); line 15, columns (b) and (c); and line 16, columns (b) and (c), do not include amounts that a partner does not take into account pursuant to the exception for certain small partners. See Regulations section 1.59A-7(d)(2) and Exception for small partners, discussed earlier. For Schedule K-2, Part VIII, report the total allocated to all partners, and for Schedule K-3, Part VIII, report the amount allocated to each individual partner.

Line 8. Purchase or creation of property rights for intangibles (patents, trademarks, etc.).

Column (a). Enter the amount paid or accrued by the partnership in connection with the acquisition or creation of intangible property rights (patents, copyrights, trademarks, trade secrets, etc.) that is subject to the allowance for depreciation (or amortization in lieu of depreciation) for the tax year.

Column (b). Enter the amount paid or accrued to all foreign persons that are a related party of any of the partners in connection with the acquisition or creation of intangible property rights (patents, copyrights, trademarks, trade secrets, etc.) that is subject to the allowance for depreciation (or amortization in lieu of depreciation).

Column (c). Enter the amount of the partners' base erosion tax benefits attributable to deductions allowed under chapter 1 for the tax year for depreciation (or amortization in lieu of depreciation) with respect to intangible property rights acquired in the current or prior years from all foreign persons that are a related party of any of the partners.

Line 9. Rents, royalties, and license fees.

Column (a). Enter the amount paid or accrued by the partnership for the tax year for the use or right to use tangible or intangible property resulting in rents, royalties, and/or license fees.

Column (b). Enter the amount paid or accrued to all foreign persons that are a related party of any of the partners for the use or right to use tangible or intangible property resulting in rents, royalties, and/or license fees.

Column (c). Enter the amount of the partners' base erosion tax benefits attributable to amounts paid or accrued to all foreign persons that are a related party of any of the partners for the use or right to use tangible or intangible property that results in rents, royalties, and/or license fees.

Line 10a. Compensation/consideration paid for services NOT excepted by section 59A(d)(5).

Column (a). Enter the amount paid or accrued by the partnership for the tax year as compensation or consideration for services, excluding any amount that qualifies for the services cost method exception in section 59A(d)(5).

Column (b). Enter the amount paid or accrued to all foreign persons that are a related party of any of the partners as compensation or consideration for services, excluding any amount that qualifies for the services cost method exception in section 59A(d)(5).

Column (c). Enter the amount of the partners' base erosion tax benefits attributable to amounts paid or accrued to all foreign persons that are a related party of any of the partners representing compensation or consideration paid for services, excluding amounts qualifying for the services cost method exception in section 59A(d)(5).

Line 10b. Compensation/consideration paid for services excepted by section 59A(d)(5).

Column (a). Enter the amounts paid or accrued by the partnership to any foreign person that is a related party of any of the partners for services qualifying for the services cost method exception in section 59A(d)(5).

Line 11. Interest expense.

Column (a). Enter the amount of interest paid or accrued by the partnership for the tax year (excluding interest paid or accrued in a prior year treated as paid or accrued in the current year under section 163(j) or similar provisions).

Column (b). Enter the amount of interest expense paid or accrued to all foreign persons that are a related party of any of the partners (excluding interest paid or accrued in a prior year treated as paid or accrued in the current year under section 163(j) or similar provisions).

Column (c). Enter the amount of the partners' base erosion tax benefits attributable to interest expense paid or accrued by the partnership that is allowed as a deduction in the current tax year. If the partner is a foreign person, include the individual lines from column (c) of Worksheet A on the applicable Schedule K-3.

Schedule K-3. When completing line 11 on the Schedule K-3, if the partner is a foreign person, enter the total from column (a) of Worksheet A on the partner's Schedule K-3 in column (a) of line 11, enter the total from column (b) of line 11 and enter the total from column (c) of Worksheet A on the Schedule K-3 in column (c) of line 11.

The partnership is required to complete Worksheet A below for all partnership related items and complete a Worksheet A for each foreign partner's share of the amounts reported on the partnership Worksheet A and attach such Worksheet A with the partner's share to the Schedule K-3.

Line 12. Payments for the purchase of tangible personal property.

Column (a). Enter the amount paid or accrued by the partnership for the tax year for the purchase of tangible personal property.

Column (b). Enter the amount paid or accrued to all foreign persons that are a related party of any of the partners for the purchase of tangible personal property.

Column (c). Enter the amount of base erosion tax benefits attributable to amounts paid or accrued to any foreign persons that are a related party of any of the partners for the purchase of tangible property.

Line 13. Premiums and/or other considerations paid or accrued for reinsurance as covered by section 59A(d)(3) and section 59A(c)(2)(A)(iii).

Column (a). Enter the amount paid or accrued by the partnership for the tax year for reinsurance.

Column (b). Enter the amount of any premiums or other consideration paid or accrued to all foreign persons that are a related party of any of the partners for reinsurance taken into account under section 803(a)(1)(B) (relating to return premiums and premiums or other

consideration arising out of indemnity reinsurance that reduces life insurance gross income) or section 832(b)(4)(A) (relating to amounts deducted from gross premiums written on insurance contracts for return premiums and premiums paid for reinsurance).

Column (c). Enter the amount of the partners' base erosion tax benefits attributable to premiums or other consideration as described in section 59A(c)(2)(A)(iii) paid or accrued to any foreign person that is a related party of any of the partners for reinsurance.

Line 14a. Nonqualified derivative payments.

Column (a). Enter the amount paid or accrued by the partnership for the tax year attributable to derivative contracts as defined in section 59A(h)(4).

Column (b). Enter the amount paid or accrued to all foreign persons that are a related party of any of the partners with respect to derivative contracts that are not eligible for the qualified derivative payment exception under section 59A(h) and Regulations section 1.59A-6. Do not include any amount paid that is a qualified derivative payment on line 14a, column (b).

Column (c). Enter the amount of base erosion tax benefits attributable to nonqualified derivative payments paid or accrued to any foreign person that is a related party of any of the partners.

Line 14b. Qualified derivative payments excepted by section 59A(h). Enter the total amount of qualified derivative payments paid or accrued by

the partnership. Generally, a qualified derivative payment is any payment made by the taxpayer pursuant to a derivative contract, provided that the taxpayer recognizes gain or loss on the derivative contract as if it were sold for its fair market value on the last business day of the tax year; treats the gain or loss as ordinary; and treats the character of all other items of income, deduction, gain, or loss with respect to a payment pursuant to the derivative as ordinary. A payment is not a qualified derivative payment if the payment would be treated as a base erosion payment if it were not made pursuant to a derivative (such as interest, royalty, or services income). With respect to a contract with both derivative and nonderivative components, a payment is not a qualified derivative payment if it is properly allocable to the nonderivative component.

For tax years beginning after June 7, 2021, a partnership will need to attach to its Form 1065 (and each Schedule K-3) a written representation that all payments satisfy the requirements of Regulations section 1.59A-6(b)(2) to meet the reporting requirement of Regulations sections 1.59A-6(b)(2) and 1.6038A-2(b)(7)(ix).

Line 15. Payments reducing gross receipts made to surrogate foreign corporation.

Column (a). Enter the amount paid or accrued by the partnership for the tax year to certain expatriated entities described in section 59A(d)(4)(C)(i).

Column (b). Enter the amount paid or accrued to certain expatriated entities that results in a reduction of the gross receipts

of the partnership. This amount includes payments to a surrogate foreign corporation that is a related party to the partner, but only if the entity first became a surrogate foreign corporation after November 9, 2017. The amount also includes payments to a foreign person that is a member of the same expanded affiliated group, as defined in section 7874(c)(1), as the surrogate foreign corporation. A surrogate foreign corporation is defined in section 7874(a)(2)(B) but does not include a foreign corporation that is treated as a domestic corporation under section 7874(b).

Column (c). Enter the base erosion tax benefits attributable to amounts paid or accrued to certain expatriated entities described in column (b) resulting in a reduction of gross receipts of the partnership.

Line 16. Other payments—specify.

Column (a). Enter the amount paid or accrued for the tax year by the partnership that have not been included on lines 6 through 15 above.

Column (b). Enter the amount paid or accrued to any foreign person that is a related party of any of the partners that is a base erosion payment that has not otherwise been included on lines 6 through 15 above.

Column (c). Enter the amount of the partners' base erosion tax benefits related to other specified base erosion payments not listed in any of the categories on lines 6 through 15 above.

Attachment. For amounts reported on line 16, attach a statement to both Form 1065 and Schedule K-3 (for distributive share) describing the type and amount of other payments, using the same column headings as specified in this schedule: "Total Base Erosion Payment," "Total Base Erosion Tax Benefit." For each type of payment, the attachment must identify the relationship of a partner to the foreign related party consistent with the categories and instructions for columns (b) and (c) of this schedule.

Line 17(c)—Base erosion tax benefits related to payments reported on lines 6 through 16, on which tax is imposed by section 871 or 881, with respect to which tax has been withheld under section 1441 or 1442 at 30% (0.30) statutory withholding tax rate. Enter the aggregate amount of the partners' base erosion tax benefits, reported on lines 6 through 16, on which tax is imposed under section 871 or 881 and with respect to which tax has been deducted and withheld under section 1441 or 1442 at a 30% statutory withholding tax rate.

Worksheet A—Interest Paid or Accrued by the Partnership

	(a)	(b)	(c)
	Total Interest Paid or Accrued in the Current Year	Interest Paid or Accrued to Foreign Related Parties of the Foreign Partner in the Current Year	Interest Expense Paid or Accrued to Foreign Related Parties of the Foreign Partner That is Allowed as a Deduction in the Current Year
(1) Interest Expense on Liabilities Described in Regulations section 1.882-5(A)(1)(ii)(A) or (B) (Direct Allocations)			
(2) Interest Paid on U.S. Booked Liabilities under Regulations section 1.882-5(d)(2)(vii)			
(3) Interest Paid on all Other Liabilities of the Partnership			
Totals. Combine line (1) through line (3)			

Line 18(c)—Portion of base erosion tax benefits reported on lines 6 through 16, on which tax is imposed by section 871 or 881, with respect to which tax has been withheld under section 1441 or 1442 at a reduced withholding rate pursuant to an income tax treaty. Multiply ratio of percentage withheld divided by 30% (0.30) times base erosion tax benefit.

The partnership is required to complete Worksheet B below for all partnership related items and attach a Worksheet B to the Schedule K-3 for each partner's share of the amounts reported on the partnership Worksheet B.

Complete Worksheet B below to determine the portion of the base erosion tax benefits, reported on lines 6 through 16, on which tax is imposed under section 871 or 881 and with respect to which tax has been deducted and withheld at a reduced withholding tax rate (but not exempt from tax) pursuant to a U.S. income tax treaty. Keep a copy of the completed Worksheet B for your records.

Schedule K-2, Part IX (Foreign Partners' Character and Source of Income and Deductions), and Schedule K-3, Part IX (Foreign Partners' Character and Source of Income and Deductions)

Note. Partners will use the following information to compute and report any U.S. tax liability on Forms 1040-NR and 1120-F. In addition, partners that enter into section 871(m) transactions referencing units in the partnership will use the information in Section 4 to determine their U.S. withholding tax and reporting obligations with respect to those transactions.

In general, the Schedule K-2, Part IX, and Schedule K-3, Part IX, must be filed by every partnership that has a foreign partner, or that knows, or has a reason to know, a foreign person has a U.S. income

tax reporting obligation with respect to all or part of a distributive share of the partnership's income. In addition, Schedule K-2, Part IX, Section 4, and Schedule K-3, Part IX, Section 4, must be completed by any publicly traded partnership that satisfies certain conditions, regardless of whether it has foreign partners.

Section 1. Gross Income

The partnership uses Section 1 of this Schedule K-2, Part IX, to report the partnership's gross income as one of the following.

1. Income from U.S. sources that is FDAP and is not income effectively connected with the partnership's conduct of a U.S. trade or business ("Non-ECI").
2. Other U.S. source Non-ECI.
3. Foreign source non-ECI.
4. ECI derived from U.S. sources.
5. Foreign source ECI.

In addition, unless otherwise noted, the partnership must complete Schedule K-3, Part IX, for the partner's share of the amounts reported on Schedule K-2, Part IX.

Any foreign person that earns ECI from U.S. or foreign sources or U.S. source FDAP may have a U.S. tax obligation for its applicable tax year. Furthermore, the applicable tax rates and reporting requirements are different for ECI and U.S. source FDAP. The partnership's reporting of partnership ECI, U.S. source FDAP, and other Non-ECI on Schedules K-2, Part IX, and K-3, Part IX, is necessary for the foreign partner to properly report and compute its U.S. income tax liability on any required U.S. income tax returns (for example, Form 1120-F, Form 1040-NR, and other applicable forms). Therefore, a partnership must report to each of its direct or indirect foreign partners, on Schedule K-3, Part IX, its respective share of any U.S. or foreign source income that is ECI of the

partnership, any U.S. source Non-ECI that is FDAP, or any income that is not ECI or FDAP of the partnership but that may be ECI with respect to the foreign partner's conduct of a U.S. trade or business.

The partnership must generally report items of gross income as either U.S. source non-ECI (FDAP) in column (c), U.S. source non-ECI (Other) in column (d), foreign source Non-ECI in column (e), U.S. source ECI in column (f), or foreign source ECI in column (g). Each line in this section of the schedule corresponds to a line on the Form 1065, Schedule K, lines 1 through 11. For a more detailed description of the types of income listed in each line, see the instructions for Form 1065, Schedule K.

Column (a). Total. For each line in Section 1, enter in column (a) the total amount of the applicable gross income that is allocable to foreign partners. For instance, if the partnership had \$100 of Other income (loss) on line 11 of Form 1065, Schedule K, \$50 of which is allocable to foreign partners, enter \$50 in column (a) of line 20.

Column (b). Partner determination. For each line, enter in column (b) the amount of the applicable gross income allocable to foreign partners the source of which must be determined by each partner individually. This includes income from the sale of most personal property other than inventory, depreciable property, and certain intangible property.

Note. The source of income is important in determining how to report income on the Schedules K-3 and K-2. Each type of income has its own sourcing rules. For more information on sourcing rules for particular items of income, see Pub. 514 and section 865.

Schedule K-3. For each line in Section 1, enter in column (b) the foreign partner's distributive share of the applicable gross income the source of which needs to be determined by the partner. For each item of income in column (b), attach a statement providing the column [(c), (d), or (f)] in which the income would be reported if it were U.S. source and the column [(e) or (g)] in which the income would be reported if it were foreign source.

Column (c). U.S. source non-ECI (FDAP). For each line, enter in column (c) amounts of the applicable gross income allocable to foreign partners if any of the following apply.


- The amount is FDAP (see definition below).
- The amount is includible in gross income. Therefore, receipts that are excluded from income (for example, interest income received on state and

Worksheet B—Section 2, Line 18, Column (c)

A	B	C	D	E
Type of base erosion payment	Amount of base erosion tax benefit	Treaty—reduced withholding rate	Divide column C by 30% (0.30) (round to 4 decimal places)	Multiply column B by column D
		%		
		%		
		%		
		%		
		%		
Add the amounts in column E and enter the total on line 18, column (c)				

local bonds that is excluded under section 103) would not be reported.

- The amount is received from U.S. sources.
 - The amount received is not effectively connected with the partnership's conduct of a U.S. trade or business (Non-ECI). Amounts that are ECI should be reported in column (f) or column (g).
 - The amount received is not exempt (by the Code) from taxation. For example, interest on deposits that are exempted by section 881(d) would not be included as income by a foreign partner. In addition, certain portfolio interest is not taxable for obligations issued after July 18, 1984. See section 881(c) for more details. Amounts that are FDAP include the following.
 - Interest (other than original issue discount (OID) as defined in section 1273), dividends, rents, royalties, salaries, wages, premiums, annuities, compensation, and other passive gains, profits, and income.
 - Gains described in section 631(b) or (c), relating to disposal of timber, coal, or domestic iron ore with a retained economic interest.
 - Gains on a sale or exchange of an OID obligation, the amount of the OID accruing while the obligation was held, unless this amount was taken into account on a payment.
 - On a payment received on an OID obligation, the amount of the OID accruing while the obligation was held, if such OID was not previously taken into account and if the tax imposed on the OID does not exceed the payment received less the tax imposed on any interest included in the payment received. This rule applies to payments received for OID obligations issued after March 31, 1972. Certain OID is not taxable for OID obligations issued after July 18, 1984. See section 881(c) for more details. For rules that apply to other OID obligations, see Pub. 515.
 - Gains from the sale or exchange of patents, copyrights, and other intangible property if the gains are from payments that are contingent on the productivity, use, or disposition of the property or interest sold or exchanged.
- For more information, see section 881(a) and Regulations section 1.881-2.

 *If the partnership had U.S. source real estate rental income that was not ECI to the partnership, include such amounts in column (c) on the Schedule K-2. Foreign partners that have elected to treat any such amounts as ECI are required to report and compute their U.S. income tax liabilities in accordance with their ECI elections. This income is reported differently on the Schedule K-3.*

Schedule K-3. For each line in Section 1, enter in column (c) the foreign

partner's distributive share of the applicable income that is U.S. source FDAP and not ECI. Rental real estate income which a foreign partner has elected to treat as ECI should not be reported in column (c) and should instead be reported in column (f).

Column (d). U.S. source Non-ECI (other). Include in this column U.S. source gross income amounts that are not ECI and would not be subject to tax in the hands of a foreign corporation under section 881 or in the hands of a nonresident alien under section 871(a). Such amounts include, for example, tax-exempt portfolio interest or municipal bond interest, U.S. source capital gains, and transportation income subject to tax under section 887.

Schedule K-3. For transportation income subject to tax under section 887, provide the partner the statement described in the instructions for the Form 1040-NR, line 58.

Column (e). Foreign source Non-ECI. For each line, enter amounts of gross income which are neither U.S. source nor ECI.

Column (f). U.S. source ECI. For each line in section 1, enter the amounts of the applicable U.S. source gross income, as determined by the partnership, that are allocable to a foreign partner and are effectively connected with the partnership's conduct of a U.S. trade or business.

If the partnership conducts a U.S. trade or business, report in column (f) any U.S. source income other than FDAP or capital gains.

Report U.S. source items of FDAP or capital gains as ECI in column (f) only if the asset-use test, the business-activities test, or both tests (explained below) are met. If neither test is met, such items are generally not ECI. For more information, see section 864(c)(2) and Regulations section 1.864-4(c).

Note. See Regulations section 1.864-4(c)(5) for special rules relating to banking, financing, or similar business activities. Such rules apply to certain stocks and securities of a banking, financing, or similar business in lieu of the asset-use and business-activities tests.

Asset-use test. FDAP and capital gains are ECI if such items are derived from assets used in, or held for use in, the conduct of U.S. trade or business. For example, the following items are ECI.

- Income earned on a trade or note receivable acquired in the conduct of the U.S. trade or business.
- Interest income earned from the temporary investment of funds needed in the U.S. trade or business.

Business-activities test. The activities of the U.S. trade or business were a material factor in the realization of the passive income items.

If a partnership is not engaged in a U.S. trade or business during the tax year, it will report amounts in column (f) if the partnership:

- Had current year income or gain from a sale or exchange of property or from performing services (or any other transaction) in any other tax year that would have been ECI in that other tax year (see section 864(c)(6)),
- Had current year income or gain from a disposition of property that is no longer used or held for use in conducting a U.S. trade or business within the 10-year period before the disposition that would have been ECI immediately before such cessation (see section 864(c)(7)), or
- Had gain or loss from disposing of a U.S. real property interest as defined in section 897(c).

Note. Such amounts are always U.S. source ECI and should never be reported in any other column.



Do not include gross real estate rental income in column (f) of the Schedule K-2 that is not ECI to the partnership. Even if a partner elects to treat the income as ECI, report these amounts in column (c).

Schedule K-3 Report in column (f) gross rental real estate income that the foreign partner elected to treat as ECI.

Column (g). Foreign source ECI. For each line of this section, enter in column (g) the amounts of the applicable gross income allocable to a foreign partner that are foreign source ECI. Foreign source income is ECI only in limited circumstances. If the partnership has an office or other fixed place of business in the United States, the following types of foreign source income it receives from that U.S. office is ECI.

- Rents or royalties received for the use outside the United States of intangible personal property described in section 862(a)(4) if derived from the active conduct of a U.S. trade or business.
- Gains or losses on the sale or exchange of intangible personal property located outside the United States or from any interest in such property, if such gains or losses are derived in the active conduct of the trade or business in the United States.
- Dividends, interest, amounts received for the provision of a guarantee of indebtedness, issued after September 27, 2010, if derived from the active conduct of a U.S. banking, financing, or similar business or if the principal business of the

partnership is trading in stocks or securities for its own account.

- Income from the sale or exchange of inventory outside the United States through the U.S. office, unless the property is sold or exchanged for use, consumption, or disposition outside the United States and an office of the partnership in a foreign country materially participated in the sale. See section 865 for additional information regarding the source of this income.
- Any income or gain that is equivalent to any item of income or gain listed above must be treated in the same manner as such item for purposes of determining whether that income is foreign source ECI. See section 864(c)(5)(A) and Regulations section 1.864-7 for the definition of office or other fixed place of business in the United States. See sections 864(c)(5)(B) and (C) and Regulations section 1.864-6 for special rules for determining when foreign source income is from an office or other fixed place of business in the United States.

Excluded foreign source income.

Foreign source income that would otherwise be ECI under any of the above rules for foreign source income is excluded if it is foreign source dividends, interest, or royalties paid by a foreign corporation in which its foreign partner owns or is considered to own (within the meaning of section 958) more than 50% of the total combined voting power of all classes of stock entitled to vote. For more information, see section 864(c)(4)(D) and Regulations section 1.864-5(d).

Section 2. Deductions, Losses and Net Income

In computing a foreign corporation's or nonresident alien's ECI, deductions are allowed only if they are connected to income that is effectively connected with a U.S. trade or business. See sections 861(b), 873, and 882(c). To determine ECI, a foreign corporation and nonresident alien individual must allocate and apportion deductions and losses to gross income in the ECI statutory grouping and to gross income in the non-ECI residual grouping. See Regulations section 1.861-8(f)(1)(iv). For additional guidance for foreign corporations, see Schedule H of Form 1120-F. See also Form 1120-F, Schedule I. For additional guidance for nonresident aliens, see the Instructions for Form 1040-NR.

Use Section 2 to report the partnership's deductions and losses that will be utilized to determine the foreign partner's ECI. The line items on Section 2 generally correspond to the deductions separately reported on Form 1065, Schedule K.

On Schedule K-3, Part IX, report the partner's share of the amounts reported by the partnership on Schedule K-2, Part IX.

Column (b). Partner determination. Certain deductions and losses must be allocated and apportioned by the partner, for example, R&E expenses and interest expense.

Columns (c) through (e). Partnership determination—Non-ECI. Enter deductions definitely related and allocated to Non-ECI under Regulations sections 1.861-8 and 1.861-20 and Temporary Regulations section 1.861-8T and -9T.

Columns (f) and (g). Partnership determination—ECI. Enter deductions definitely related and allocated to ECI under Regulations sections 1.861-8 through 1.861-20 and Temporary Regulations section 1.861-8T and -9T.

Line 2. R&E expense. In general, R&E expenses are allocated and apportioned by the partner and reported in column (b).

Line 7. Interest expense on U.S. booked liabilities. The partnership reports its interest expense on U.S. booked liabilities as described in Regulations section 1.882-5(d)(2)(vii). This is relevant for determining the foreign corporation's interest expense allocable to ECI.

Line 10. Section 59(e)(2) expenditures. Do not include R&E expenses on this line. Rather include R&E expenses that are also section 59(e)(2) expenditures on line 2.

Line 16. Charitable contributions. Charitable contributions may be deducted whether or not they are effectively connected with a U.S. trade or business. See sections 873(b)(2) and 882(c), and Regulations section 1.882-4(b) for more information. Charitable contribution deductions are apportioned solely to U.S. source gross income. See Regulations section 1.861-8(e)(12). Include amounts reported on line 16 in column (f).

Line 25. Net income (loss). The amount in column (a) should equal line 1 of Analysis of Net Income (Loss) on page 5 of Form 1065.

Section 3. Allocation and Apportionment Methods for Deductions

Section 3 provides information a partner may use to apportion deductions to ECI or Non-ECI. See Regulations sections 1.861-8 through 1.861-20 and Temporary Regulations sections 1.861-8T through -9T. The ratios listed below generally correspond to the ratios on Form 1120-F, Schedule H, Part III.

On Schedule K-3, Part IX, report the partner's share of the amounts reported by the partnership on Schedule K-2, Part IX.

Line 1a. Gross ECI. Enter the partnership's gross ECI from Section 1, line 21, sum of columns (f) and (g).

Line 1b. Worldwide gross income. Enter the partnership's worldwide gross income from Section 1, line 21, column (a).

Line 2a. Average U.S. assets (inside basis). Report the partnership's basis in the partnership assets that generate ECI so that if the partner apportions its deductions based on the partnership's basis of assets, the partner will have this information. This is not the same asset value used for interest expense apportionment under Regulations section 1.882-5.

Line 2b. Worldwide assets. Report the partnership's basis in its worldwide assets.

Line 3a. U.S.-booked liabilities of the partnership. Enter the partnership's U.S.-booked liabilities as defined in Regulations section 1.882-5(d)(2).

Line 3b. Directly allocated partnership indebtedness. Enter the partnership's indebtedness that meets the requirements of Temporary Regulations section 1.861-10T(b) or (c), as limited by Temporary Regulations section 1.861-10T(d)(1), as described in Regulations section 1.882-5(a)(1)(ii)(B).

Line 4a. Personnel of U.S. trade or business. Enter on line 4a the number of personnel who worked in the partnership's U.S. trade or business during the tax year. The partnership may use any reasonable method to determine the number of personnel, including data that is already prepared and used by the partnership for a non-tax business purpose. For example, if the partnership maintains headcount data (such as weighted average headcount data) in its personnel records or for other purposes such as budgeting, planning, and control, such numbers may be used in the numerator.

Lines 5 and 6. For purposes of determining ECI, R&E expenses are definitely related to all income reasonably connected with relevant broad product categories of the taxpayer and are allocable to all items of gross income as a class related to such product categories. The product categories are determined by reference to the three-digit classification of the SIC code. In general, the R&E expenses are apportioned based on sales or gross income. See Regulations section 1.861-17. Because R&E expenses are allocated and apportioned by the partner, the partnership reports to its partners the sales and gross income generating ECI by SIC code. Taxpayers that use the sales

method for apportioning R&E expense are allowed to use Proposed Regulations section 1.861-17, provided the proposed regulations are applied consistently.

For each SIC code, in line 5, column (ii), enter the gross sales that resulted in ECI, and in line 5, column (iii), enter the worldwide sales. Such sales include both the partnership's sales and certain other parties' sales. See Regulations section 1.861-17(c)(2) and (c)(3). Sales of parties controlled by the partnership should be included in line 5 if such controlled parties can reasonably be expected to benefit from the taxpayer's R&E expense connected with the product categories. This includes sales that benefit from the partner's R&E expenses if licensed through the partnership. Sales of uncontrolled parties are also taken into account if such sales involve intangible property that was licensed or sold to the uncontrolled party if the uncontrolled party can reasonably be expected to benefit from the R&E expense.

Lines 7 and 8. Report other apportionment keys, as applicable. See Regulations section 1.861-8 through -20 and Temporary Regulations section 1.861-8T and -9T.

Section 4. Section 871(m) Covered Partnerships

This section must be completed if you are a partnership that is a publicly traded partnership as defined in section 7704(b) (a "PTP") that is a covered partnership as defined in Regulations section 1.871-15(m)(1) (a "covered partnership") or directly or indirectly holds an interest in a lower-tier partnership that is a covered partnership, regardless of whether your partners are domestic or foreign. The information in this section is to permit partners that have entered into section 871(m) transactions referencing units in the partnership to determine their U.S. withholding tax and reporting obligations with respect to those transactions under section 871(m) and related rules.

Line 1. If you are a PTP and a covered partnership or directly or indirectly hold an interest in a lower-tier partnership that is a covered partnership, check the box on Part IX, section 4, line 1, of both Schedule K-2 and Schedule K-3. A covered partnership is a partnership that carries on a trade or business of dealing or trading in securities or holds significant investments in securities. A partnership holds a significant investment in securities for this purpose if either (A) 25% or more of the value of the partnership's assets consist of underlying securities or potential section 871(m) transactions, or (B) the value of the underlying securities or potential section 871(m) transactions

equals or exceeds \$25 million. Generally, an underlying security is any interest in an entity that could give rise to a U.S. source dividend, and a potential section 871(m) transaction is a securities lending or sale-repurchase transaction, a notional principal contract, or any other financial transaction that references one or more underlying securities. See Regulations section 1.871-15 for additional information, including the definitions of underlying securities and potential section 871(m) transactions.

Line 2. On Schedule K-2, specify the total number of units the partnership has issued and outstanding. On Schedule K-3, specify the number of units of the partnership held by the partner.

Line 3. On both Schedule K-2 and Schedule K-3, for each allocation period, specify when the allocation period begins and ends, as well as the dividends, dividend equivalents, and the total of the dividends and dividend equivalents for the applicable period. On Schedule K-2, the information is for all the issued and outstanding units of the partnership. On Schedule K-3, the information is for the units of the partner to which the Schedule K-3 relates. The allocation period should be determined in accordance with section 706 and the Regulations thereunder. See Regulations section 1.871-15 for additional information regarding dividend equivalents. If you need more lines, attach a statement to both Form 1065 and Schedule K-3 (for distributive share) with the additional information.

Schedule K-3, Part X (Foreign Partner's Distributive Share of Deemed Sale Items on Transfer of Partnership Interest)

Note. Partners will use the following information to complete Form 4797, Sales of Business Property, and Form 8949, Sales and Other Dispositions of Capital Assets.

Note. There is not a corresponding part on Schedule K-2 with respect to Schedule K-3, Part X.

This part provides the information for a foreign partner to use to determine the gain or loss it reports on its return from the transfer of an interest in the partnership. This part generally applies to a partnership that is directly or indirectly engaged in the conduct of a trade or business in the United States (U.S. trade or business) and had a foreign partner if either:

1. The foreign partner transferred an interest in the partnership (including a distribution that results in the recognition of gain or loss to a partner (see Regulations section 1.731-1(a)), or

2. The partnership directly or indirectly transferred an interest in a partnership that engaged in a U.S. trade or business.

The partnership must complete lines 1 through line 3 of this part if it is notified or otherwise knows that a transfer subject to section 864(c)(8) has occurred. A partnership that makes a distribution is treated as having actual knowledge of the transfer. See Regulations section 1.864(c)(8)-2(a)(1) and Pub. 541 for the rules regarding foreign transferor notifications.

If the transfer was a section 751(a) exchange, the partnership must also file a Form 8308, Report of a Sale or Exchange of Certain Partnership Interests. See Regulations section 1.6050K-1.

Item A. Date of transfer of the partnership interest. Enter the date that the foreign partner transferred an interest in the partnership or the date that the partnership transferred an interest in a partnership that engaged in a U.S. trade or business. The partner's notification should provide this date to you. If there are multiple transfers during the tax year with respect to a foreign partner, complete a separate schedule for each transfer. If there are multiple classes of partnership interests, complete a separate schedule for each class of interest transferred and complete each schedule based on the portion of the class transferred.

Item B. Identify the number of units or the percentage interest in the partnership transferred. Enter the percentage interest in the partnership or the number of units in the partnership that the partner transferred in item B1 or B2, respectively.

Enter zero for item B if a partnership is completing this part for a partner that is treated as transferring an interest in the partnership because it received a distribution but whose ownership interest in the partnership remains unchanged.

Line 1. Total ordinary gain or (loss) that would be recognized on the deemed sale of section 751 property. Enter the amount of income or loss from section 751(a) property that would have been allocated to the foreign partner with respect to the interest transferred if the partnership had sold all of its property in a fully taxable transaction for cash in an amount equal to the fair market value of the property immediately before the partner's transfer of the interest in the partnership. See Regulations section 1.751-1(a).

Lines 2 and 3. Aggregate effectively connected ordinary gain or (loss) that would be recognized on the deemed sale of section 751 property, and Aggregate effectively connected capital gain or (loss) that would be

recognized on the deemed sale of non-section 751 property. Determining the amount to report on line 2 and line 3 requires a three-step process. These instructions provide an overview of that process. For more information, see Regulations section 1.864(c)(8)-1. First, with respect to each asset the partnership holds, determine the amount of gain or loss that the partnership would recognize in connection with a deemed sale to an unrelated party in a fully taxable transaction for cash equal to the asset's fair market value immediately before the partner's transfer of its partnership interest. Second, determine the amount of that gain or loss that would be treated as effectively connected gain or loss ("deemed sale effectively connected gain" and "deemed sale effectively connected loss"). Third, determine the partner's

distributive share of these deemed sale gain or loss amounts.

- Enter on line 2 the foreign transferor's distributive share of deemed sale effectively connected ordinary gain or loss recognized on the transfer of section 751(a) property.
- Enter on line 3 the foreign transferor's distributive share of deemed sale effectively connected capital gain or loss recognized on the transfer of non-section 751(a) property.

Line 4. Gain or (loss) that would be recognized under section 897(g) on the deemed sale of U.S. real property interests. Section 897(a) treats gain or loss from the disposition of a U.S. real property interest (as defined in section 897(c)) by a nonresident alien or foreign corporation as gain or loss that is

effectively connected to a trade or business within the United States. Section 897(g) generally provides that, under regulations prescribed by the Secretary, the amount recognized by a nonresident alien individual or foreign corporation in exchange for all or part of its interest in a partnership is, to the extent attributable to U.S. real property interests, considered as an amount received from the sale or exchange in the United States of such property. When a partnership holds only U.S. real property interests and, therefore, is not also subject to section 864(c)(8), it must enter on line 4 the amount of the foreign transferor's gain or loss realized under section 897(g) from the transfer of a partnership interest attributable to U.S. real property interests.

Draft as of July 9, 2020

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