



Partner's Instructions for Schedule K-3 (Form 1065)

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

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

Future Developments

For the latest information about developments related to Schedule K-3 (Form 1065) and the Partner's Instructions for Schedule K-3 (Form 1065), such as legislation enacted after they were published, go to [IRS.gov/Form1065](https://www.irs.gov/Form1065).

What's New

Schedule K-3 is new for the 2021 tax year. This Schedule K-3 replaces, supplements, and clarifies the former 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 you with the information necessary to complete your returns with respect to the international tax aspects of the Internal Revenue Code. For example, the new format provides information necessary for a partner that is a corporation (corporate partner) or individual (individual partner) to compute their foreign tax credit on Form 1118, Foreign Tax Credit—Corporations, or Form 1116, Foreign Tax Credit (Individual, Estate, or Trust), respectively.

General Instructions

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

Specific Instructions

Schedule K-3, Partner's Share of Income, Deductions, Credits, etc.—International

Schedule K-3 reports items of international tax relevance from the operation of a partnership. You must include this information on your tax or information returns. See separate parts for specific instructions. You only need to use the schedules that are applicable to you. For example, in general, if you are a domestic corporation, you do not need to use Part IX (Foreign Partner's Character and Source of Income and Deductions). Schedule K-3 should also be used to report information to certain partners that hold their partnership

interest through a partnership, S corporation, or trust.

How to Use Schedule K-3

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

Part I. Used to determine any international tax items not reported elsewhere on Schedule K-3 (Form 1065).

Part II. Used to determine your share of partnership income and loss by source and separate category of income for purposes of the foreign tax credit limitation. Partners will use the information to claim and compute a foreign tax credit on Forms 1116 and 1118.

Part III. Used to determine the allocation and apportionment of research and experimental (R&E) expense and interest expense for purposes of the foreign tax credit limitation. Also use this part to determine your share of the partnership's foreign taxes paid or accrued. Partners will use the information to compute and claim a foreign tax credit on Forms 1116 and 1118.

Part IV. Used to determine your 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 foreign-derived intangible income on Form 8993, Section 250 Deduction for Foreign-Derived Intangible Income (FDII) and Global Intangible Low-Taxed Income (GILTI). Also use this part to determine your share of distributions by foreign corporations to the partnership that are attributable to either previously taxed earnings and profits (PTEP) or non-previously taxed earnings and profits (E&P) and the amount of foreign currency gain or loss on distributed PTEP that you are required to recognize under section 986(c). Partners will use the information to claim and compute a foreign tax credit on Forms 1116 and 1118. Partners will also use the information to exclude distributions of PTEP from gross income and report foreign currency gain or loss with respect to PTEP distributions on Form 1040, U.S. Individual Income Tax Return; and Form 1120, U.S. Corporation Income Tax Return, and also to claim and compute a dividends received deduction under section 245A on Form 1120.

Part V. Used to determine your inclusions under sections 951(a) and 951A. Partners will use the information to complete Form 8992, U.S. Shareholder Calculation of

GILTI, and Forms 1040 and 1120 with respect to subpart F inclusions, section 951(a)(1)(B) inclusions, and section 951A inclusions.

Part VI. Used to complete Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company (PFIC) or Qualified Electing Fund (QEF), including information required to determine your inclusion under section 1291, 1293, or 1296, as applicable, as well as information needed regarding elections with respect to the PFIC or QEF.

Part VII. Used to determine your deemed paid taxes on inclusions under section 951A, 951(a)(1), or 1293(f). Partners will use the information to claim and compute a deemed paid foreign tax credit on Form 1118.

Part VIII. Used to compute the 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. Used to determine your 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, periodical (FDAP) income. Partners will use the information to compute and report any U.S. tax liability on Form 1040-NR, U.S. Nonresident Alien Income Tax Return; and Form 1120-F, U.S. Income Tax Return of a Foreign Corporation. Partners that have entered into section 871(m) transactions referencing units in the partnership will use any information reported in Section 4 to determine their U.S. withholding tax and reporting obligations with respect to those transactions under section 871(m) and related rules, including for purposes of determining the amounts to report on Forms 1042 and 1042-S.

Part X. Used if you are a foreign person, to determine your distributive share of deemed sale items on transfer of a 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.

Part I. Partner's Share of Current Year International Transaction Information

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

applicable, a box is checked and the partnership attached certain schedules and forms. See further details with respect to items 7 through 9.

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. If the partnership sells non-depreciable personal property (other than inventory and certain intangible property), you, the partner, are treated as the seller. Therefore, you will need to determine the source of the gain reported on Part II, line 1, column (f). In general, if you are a U.S. citizen or resident, the gain is U.S. source. However, 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 checked box 1 on Part I, use the information attached to Schedule K-3 to determine if a foreign country imposed a tax of at least 10% or more on the gain from each sale. If so, and you have a tax home in that foreign country, such gain is foreign source income and reported on Form 1116. For more information, see the instructions later to Part II, column (f).

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 had such taxes, it checked box 2 and attached a partially completed Form 1118, Schedule I, to Schedule K-3. If you are a corporation, use the partially completed Schedule I to complete your Form 1118, Schedule I. If you are an individual, estate, or trust, see Form 1116, Part III, line 12, and the associated instructions for the applicable reduction for individuals.

Box 3. Splitter arrangements. Foreign taxes with respect to a foreign tax credit splitting event are suspended until the related income is taken into account by the taxpayer. See section 909. There is a foreign tax credit splitting event with respect to foreign taxes 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).

If the partnership checked box 3 on Part I, it attached a statement that separately identifies any arrangement, along with your share of the taxes paid or accrued in connection with the arrangement in which the partnership participates that would qualify as a splitter arrangement under section 909. The box should be checked

only if an entity that took into account related income from the arrangement is a covered person with respect to one or more partners. For example, you are a payor of a foreign tax if you take into account the foreign taxes paid or accrued by the partnership under section 702(a)(6). If the partnership wholly owns a reverse hybrid (as defined in Regulations section 1.909-2(b)(1)(iv)) and you own 10% or more of the interest in the partnership, the reverse hybrid is a covered person with respect to you. You cannot credit the foreign taxes paid or accrued by the partnership with respect to the reverse hybrid until you or the partnership takes into account the related income of the reverse hybrid. Until then, the taxes are suspended. The partnership reported your share of the potentially suspended taxes as a result of the application of section 909 on Part III, Section 3, line 2E. If you are a corporation, complete Form 1118, Schedule G, line E for taxes suspended under section 909. If you are an individual, estate, or trust, include on Form 1116, Part III, line 12, taxes suspended under section 909. If you are required to complete Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, for a controlled foreign corporation (CFC), include in Schedule E-1, column (d), line 3b, taxes suspended under section 909.

If the partnership checked box 3, and the statement indicates that the partnership took into account the related income from the splitter arrangement, the taxes are partially or fully unsuspended depending on the amount of related income taken into account. Even though the taxes are unsuspended, in certain cases you might not be eligible to claim a credit for those taxes, for example, when the related income is taken into account as part of a dividend for which you are eligible for a section 245A deduction. To the extent you are eligible to claim a credit for unsuspended taxes, these amounts may be claimed on Form 1118 or Form 1116, as applicable. If you are required to complete Form 5471, for a CFC, report the unsuspended taxes on Form 5471, Schedule E-1, column (d), line 3a.

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

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

Box 5. High-taxed income. If the partnership checked box 5, you must determine if the passive income reported to you by the partnership is treated as income in another separate category. Income received or accrued by a U.S. person that would otherwise be passive income is not treated as passive income if the income is determined to be high-taxed income. See section 904(d)(2)(B)(iii)(II). You must group your distributive shares of passive income from a partnership according to the rules in

Regulations section 1.904-4(c)(3). However, the portion, if any, of the distributive 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 Regulations section 1.904-4(c)(5)(ii). The partnership should have attached schedules 1 and/or 2 to Part IV. See page 3. Use the schedules and your taxes on your other passive income to determine if you need to assign passive income and the associated taxes as another separate category of income. You must allocate and apportion the partner's expenses to this passive income to determine if the income is treated as income in another separate category. This includes both your distributive share of partnership expenses and expense incurred by you directly. If you are a corporation, see the Instructions for Form 1118 for how to report your income and taxes reclassified under the high-taxed income rule. If you are an individual, estate, or trust, see the Instructions for Form 1116 for how to report your income and taxes reclassified under the high-taxed income rule.

Box 6. Section 267A disallowed deductions. If the partnership checked box 6 on Part I and attached a statement titled "Section 267A Disallowed Deduction," prepare your tax return by taking into account that you are not allowed a deduction for any of the amounts listed in the statement. Thus, for example, do not claim as a deduction any amount reported on lines 41 through 43 of Schedule K-3, Part II, Section 2, or line 9 of Part IX, Section 2, to the extent listed in the statement as an amount for which a deduction is disallowed under section 267A. As an additional example, in the case of a Form 1120 filer, include the amount of disallowed deductions under section 267A on Schedule K, Question 21. See also Form 1120-F, page 2, item EE.



Box 6 and the accompanying statement describe only interest or royalty paid or accrued by the partnership for which the partnership knows, or has reason to know, that you are disallowed a deduction under section 267A. In certain cases, the partnership may not know, or have reason to know, that you are disallowed a deduction for interest or royalty paid or accrued by the partnership. See Instructions for Form 1065, Schedule B, line 22. For your share of any interest or royalty paid or accrued by the partnership, you must apply section 267A and determine whether a deduction is disallowed, regardless of whether box 6 is checked or whether the amount is listed on the accompanying statement.

Items 7 through 9. The partnership should attach Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations; Form 8858, Information Return of U.S. Persons With Respect to Foreign Disregarded Entities (FDEs) and Foreign Branches (FBs); Form 8865, Return of U.S. Persons With Respect to Certain Foreign

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		

Partnerships, and other relevant international tax forms.

Parts II and III

Schedule K-3, Parts II and III, report information you use to compute the foreign tax credit. In general, a U.S. individual, estate, trust, or corporation may claim a credit for taxes paid or accrued, and in some cases deemed paid, to foreign countries or U.S. possessions. In general, foreign corporations and nonresident alien individuals may claim a credit for taxes paid or accrued to foreign countries or U.S. possessions with respect to ECI. The amount of foreign tax credit in a tax year is generally limited to the U.S. tax on foreign source income. The limitation is computed by separate categories of foreign source income, including foreign branch category, passive category, and general category. See the instructions for Forms 1116 and 1118, as well as Pub. 514, Foreign Tax Credit for Individuals, for a summary of the rules for determining the source and separate categories of income. Note that the information on Parts II and III may need to be included on other forms if the partnership is owned by a corporation or individual eligible to claim a foreign tax credit. For example, another domestic partnership or a foreign partnership will need to report the share of foreign source income and taxes on the Form 1065 or 8865, respectively. Similarly, a CFC will need to report its share of foreign

source income and taxes on Form 5471, in particular, Schedule E.

Part II. Foreign Tax Credit Limitation

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

Columns (b) through (e). Foreign source. Add the amounts reported in these columns to other income in these separate categories and report the total amounts on the applicable Form 1116, Part I, or Form 1118, Schedule A.

Column (f). Sourced by partner. You must determine the source and separate category of the income reported in this column. The income in this column will generally be with respect to sale of personal property other than inventory, depreciable property, and certain intangible property sourced under section 865. This column might also include foreign currency gain on a section 988 transaction. The source of such income is typically based on your residence. Therefore, if you are a U.S. citizen or resident, most sales and gains reported in this column will be U.S. source income and

not reported on Form 1116 or Form 1118 unless you elect to resource such income under an applicable income tax treaty. There are certain exceptions, for example, 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. Also, the source of foreign currency gain or loss on section 988 transactions may be determined by reference to the residence of the QBU on whose books the asset, liability, or item of income or expense is properly reflected. See the Instructions for Form 1118 and Pub. 514 for additional details.

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. Schedule K-3, Part II, lines 1 through 23 generally follow the separately reported types of gross income on Schedule A. Individuals must follow the same sourcing rules, but Form 1116 only requires reporting of total gross income from foreign sources. Therefore, those required to file Form 1116 would report line 24, taking into account section 904(b)(2) adjustments, by country on their Form 1116, Part I, line 1a. Because all gross income is reported on one line on the Form 1116, there is no need to specify other reporting lines for gross income below.

Line 1. Sales. If you file Form 1118, enter the amount reported on this line on the Form 1118, Schedule A, column 7, by separate category. See the instructions for column (f).

Line 2. Gross income from performance of services. If you file Form 1118, enter the amount reported on this line on the Form 1118, Schedule A, column 8, by separate category.

Lines 3, 4, and 10. Rental income, royalties, and license fees. If you file Form 1118, enter the amounts reported on these lines on the Form 1118, Schedule A, column 6, by separate category.

Line 5. Guaranteed payments. If you file Form 1118, enter the amount reported on this line on the Form 1118, Schedule A, column 12, by separate category.

Line 6. Interest income. If you file Form 1118, enter the amount reported on this line on the Form 1118, Schedule A, column 5, by separate category.

Lines 7 and 8. Ordinary dividends and qualified dividends. The amounts on these lines may be attributable to PTEP in annual PTEP accounts that you have with respect to a foreign corporation. You will need to determine the amount of the ordinary dividends and qualified dividends that are attributable to PTEP in your annual PTEP accounts. See the Instructions for Form 1116 for additional information with respect to rules regarding capital gain rate differentials (as defined in section 904(b)(3)(D)) for

qualified dividends. If you file Form 1118, enter the amounts reported on this line, less the amounts you determine are attributable to PTEP in your annual PTEP accounts, on the Form 1118, Schedule A, column 4(a), by separate category.

Lines 11 through 15 and 27 through 30. Capital gains and losses. Section 904(b)(2)(B) contains rules regarding adjustments to account for capital gain rate differentials (as defined in section 904(b)(3)(D)) for any tax year. These rules apply to individuals and may require adjustments to the amounts on lines 11 through 15, which in turn affects the total amount on line 24. See the Instructions for Form 1116 for additional information. If you file Form 1116, report lines 27 through 30 on Form 1116, Part I, line 5, by separate category. If you file Form 1118, enter the amounts reported on lines 11 through 15 on the Form 1118, Schedule A, column 12, by separate category. Enter the amounts reported on lines 27 through 30 in Form 1118, Schedule A, column 14(h), or Schedule H, Part II, column (c), as applicable, by separate category.

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 distribution of PTEP using the information provided by the partnership. Therefore, you will need to determine your foreign currency gain or loss under section 986(c) that is reported on Form 1118 and other forms, for example, Form 1040 or 1120. If you file Form 1118, enter the amount on line 16 on the Form 1118, Schedule A, column 9, by separate category. Enter the amount reported on line 46 on the Form 1118, Schedule A, column 14(h), or Schedule H, Part II, column (c), as applicable, by separate category.

Line 17. Section 987 gain. If you file Form 1118, enter the amount reported on line 17 on the Form 1118, Schedule A, column 10, by separate category.

Lines 18 and 48. Section 988 gain and loss. The source of foreign currency gain or loss on section 988 transactions is generally determined by reference to the residence of the taxpayer or QBU on whose books the asset, liability, or item of income or expense is properly reflected. If the source of the foreign currency gain or loss is determined by reference to the residence of the taxpayer, the foreign currency gain and loss will be reported in column (f). For example, if you are a U.S. resident, such gain or loss is U.S. source and would not be reported on Form 1116 or Form 1118. If you file Form 1118, enter the amount on line 18 on the Form 1118, Schedule A, column 11, by separate category. See instructions for column (f). Enter the amount reported on line 48 on the Form 1118, Schedule A, column 14(h), or Schedule H, Part II, column (c), as applicable, by separate category.

Line 19. Section 951(a) inclusions. If you file Form 1118, enter the amount reported on line 19 on the Form 1118, Schedule A, column 3(a), by separate category.

Line 20. Other income. If you file Form 1118, enter the amount reported on line 20 on the Form 1118, Schedule A, column 12, by separate category.

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

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. For purposes of allocating and apportioning expenses, in general, a partner adds the distributive share of the partnership's deductions with other deductions incurred directly by the partner or through other pass-through entities including partnerships, S corporations, and trusts (see Regulations section 1.904-5(a)(4)(iv) for a definition of pass-through entity). 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. See Form 1116, Part I, lines 2 through 5.

Line 25. Expenses allocable to sales income. If you file Form 1118, enter the amount reported on line 25 on the Form 1118, Schedule A, column 14(f), by separate category.


Line 26. Expenses allocable to gross income from performance of services. If you file Form 1118, enter the amount reported on line 26 on the Form 1118, Schedule A, column 14(g), by separate category.

Lines 31, 37, and 44 through 47. Other deductions. If you file Form 1118, enter the amounts reported on these lines on the Form 1118, Schedule A, column 14(h), or Schedule H, Part II, column (c), as applicable, by separate category.

Line 32. R&E expenses. Add the R&E expenses reported in column (f) to your other R&E expenses. After determining the portion of such expenses that are allocable to U.S. source income or foreign source income because they are performed predominantly in a particular geographic area, report the remaining R&E expense on Form 1118, Schedule H, Part I, line 2. See Regulations section 1.861-17(f).

Lines 33 and 35. Allocable rental, royalty, and licensing expenses (depreciation, depletion, and amortization). If you file Form 1118, enter the amounts reported on lines 33 and 35 on the Form 1118, Schedule A, column 14(d), by separate category.

Lines 34 and 36. Allocable rental, royalty, and licensing expenses (other than depreciation, depletion, and amortization). If you file Form 1118, enter the amounts reported on lines 34 and 36 on the Form 1118, Schedule A, column 14(e), as applicable, by separate category.

 If Part I, box 6, is checked, royalty expense may include amounts for which the partner is not allowed a deduction under section 267A. See statement with respect to Part I, box 6, attached to Schedule K-3.

Line 38. Charitable contributions. Charitable contribution deductions should not be reported on Form 1116 or Form 1118 because such deductions are allocable to U.S. source income.

Lines 39 and 40. Interest expense specifically allocable under Regulations sections 1.861-10 and -10T. If you file Form 1118, report amounts reported on these lines on Form 1118, Schedule H, Part II, column (b), lines 1b and c.

Lines 41 through 43. Other interest expense. If you file Form 1118, report the sum of the interest expense included on lines 41 through 43 in column (f) on Form 1118, Schedule H, Part II, column (b), line 2. If you file Form 1116, allocate and apportion the sum of the interest expense included on lines 41 through 43 in column (f) and report the allocated and apportioned amounts on the applicable separate category Form 1116, Part I, line 4b. Interest expense incurred by certain individuals, estates, and trusts is allocated and apportioned based on the categories of interest expense in sections 163 and 469: active trade or business interest, investment interest, or passive activity interest, adjusted for any interest expense directly allocated under Regulations section 1.861-10T. See Regulations section 1.861-9(e)(3) and Temporary Regulations section 1.861-9T(d)(1).

Exception. If you are a less-than-10% (including constructively) limited partner, the partnership's interest expense is directly allocated to your distributive share of the partnership gross income based on source and character of the income. If your partnership interest is not held in the ordinary course of your active trade or business, all such income is passive category income. See Regulations section 1.861-9(e)(4)(i) for further guidance. If you file Form 1118, report such interest expense on the passive category Form 1118, Schedule A, line 14(h). If you file Form 1116, report such interest expense on the passive category Form 1116, Part I, line 4b. However, if the partnership interest is held in the ordinary course of the partner's active trade or

business, see line 24 for the source and character of the partner's distributive share of income. Report the interest expense on the appropriate Form 1118 or 1116, as applicable.

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



If Part I, box 6, is checked, interest expense may include amounts for which the partner is not allowed a deduction under section 267A. See statement with respect to Part I, box 6, attached to Schedule K-3.

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

Line 49. Other allocable deductions. If you file Form 1118, enter the amounts reported on this line on the Form 1118, Schedule A, column 14(h), by separate category.

Line 50. Other apportioned share of deductions. If you file Form 1118, enter the amounts reported on this line on the Form 1118, Schedule H, Part II, column (c), by separate category.

Schedule K-3, Part III. Other Information for Preparation of Form 1116 or 1118

Section 1. R&E Expenses Apportionment Factors

This section reports the information that you need to allocate and apportion your R&E expense for foreign tax credit limitation purposes. R&E expenses are allocated and apportioned by the partner. See Regulations section 1.861-17(f)(1). Individual, estate, and trust partners will use this Section 1 to determine the R&E expense reported on Form 1116, Part I, line 3b. See the Instructions for Form 1116. Corporate partners will use this Section 1 to determine the R&E expense reported on Form 1118, Schedule H, Part I.

Line 1. If you choose the sales method to apportion R&E expense, add the amounts reported on line 1 by standard industrial classification (SIC) code to other sales and report on Form 1118, Schedule H, Part I, column (a), line 1, columns (i) and (iii).

Line 2. If you choose the gross income method to apportion R&E expense, add the amounts reported on line 2 by SIC code to the other gross income and report on Form 1118, Schedule H, Part I, column (b), line 1, columns (v) and (vii).

Line 3. Add the amounts reported on line 3 to the partner's other R&E expense related to activity performed in the United States and the amount of R&E expense related to activity performed outside the United States by SIC code. See the Instructions for Form 1118 to determine the exclusive apportionment of the R&E expenses.

Section 2. Interest Expense Apportionment Factors

This section includes the information that you need to allocate and apportion your interest expense for foreign tax credit limitation purposes. This part is relevant for all partners except limited partners with less than a 10% partnership interest. Individual, estate, and trust partners will use this Section 2 to determine the interest expense reported on Form 1116, Part I, line 4b. See the Instructions for Form 1116. Because the interest expense is reported on one line on the Form 1116, there is no need to specify additional reporting on the lines below. Corporate partners will use this section 2 to determine the interest expense reported on Form 1118, Schedule H, Part II. The particular line reporting on Form 1118 is specified below.

Line 3. If you are a general corporate partner or a corporate partner whose interest in the partnership is 10% or more, report the inside basis of the partnership assets reported on line 3 on Form 1118, Schedule H, Part II, column (a), line 1b.

Line 4. If you are a general corporate partner or a corporate partner whose interest in the partnership is 10% or more, report the inside basis of the partnership assets reported on line 4 on Form 1118, Schedule H, Part II, column (a), line 1c.

Line 5. If you are a general corporate partner or a corporate partner whose interest in the partnership is 10% or more, report the inside basis of the partnership assets reported on line 5 on Form 1118, Schedule H, Part II, column (a), line 1d.

Line 6. If you are a general corporate partner or a corporate partner whose interest in the partnership is 10% or more, report the amounts on line 6 on Form 1118, Schedule H, Part II, column (a), line 2 and 3, as applicable.

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, if you are eligible for the section 245A deduction for distributions received from that corporation, all of the value of its stock is generally 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)). See Regulations section 1.904(b)-3(c)(2).

The amount reported on line 7 is the value of stock of the partnership-owned specified 10%-owned foreign corporation that is not a CFC. Use the information provided in the attachment to line 7 to determine if such amount should be reported on Form 1118, Schedule H, Part II, line 3, lines (a) through (f), as (1) Section 245A dividend, or (2) Other.

If the specified 10%-owned foreign corporation is a CFC, you must subdivide a portion of the value of stock in each separate category and in the residual grouping for U.S. source income between a section 245A and non-section 245A subgroup under the rules described in Regulations section 1.861-13(a)(5).

The amount reported on line 8 is the value of the stock in partnership-owned CFCs. Use the information provided in the attachment to line 8 to determine if such amount should be reported on Form 1118, Schedule H, Part II, line 3, lines (a) through (f), as (1) Section 245A dividend, or (2) Other.

Section 3. Foreign Taxes

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

Line 1. Report the taxes on line 1 in the applicable portions of Form 1116, Part II, and Form 1118, Schedule B, Part I, for the applicable separate category of income. To complete such parts, refer to the statement attached to Schedule K-3, Part III, with the following information.

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

Line 2. Report the total reduction of taxes for each separate category of income on line 2 on Form 1116, Part III, line 12, and Form 1118, Schedule B, Part II, line 3.

Line 3. Report the redetermined foreign taxes reported on line 3 on the appropriate tax return with respect to the related tax year.

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

Section 1. Information on Section 250 Deduction With Respect to Foreign-Derived Intangible Income (FDII)

A U.S. corporate partner should include any information in this section to calculate the partner's FDII on Form 8993.

Note. A partner that is a partnership should include any information in this section in completing Schedule K-3, Part IV, and Schedule K-2, Part IV, Section 1, with respect to its own partners.

Line 1. Gross receipts and line 2. COGS.

A partner must include the amounts reported to it on lines 1(a) through (c) and line 2 of Schedule K-3, Part IV, Section 1, in calculating the gross income on line 1, Part I, of Form 8993. The partner must also include any amounts that it identifies from lines 1(a) through (c) and line 2 of Schedule K-3, Part IV, Section 1, that are not attributable to its gross Deductible Eligible Income (DEI) in lines 2(a) through (f), Part I, of Form 8993.

Line 3. Foreign derived gross receipts, line 4. COGS attributable to the amount on line 3, and line 6. Deductions properly allocable to the amount on line 3.

A partner must include the amounts reported to it on lines 3(a), 4, and 6(a) of Schedule K-3, Part IV, Section 1, in calculating the DEI on line 1(a), Part III, of Form 8993; the amounts reported to it on lines 3(b) and 6(b) of Schedule K-3, Part IV, Section 1, in calculating the DEI on line 1(b), Part III, of Form 8993; and the amounts reported to it on lines 3(c) and 6(c) of Schedule K-3, Part IV, Section 1, in calculating the DEI on line 1(c), Part III, of Form 8993. However, the partner must only include the portion of the amounts on lines 3(a) through (c), 4, and 6(a) through (c), of Schedule K-3, Part IV, Section 1 that are attributable to its gross DEI on line 4, Part I, of Form 8993.

Line 5. Deductions properly allocable to the amount on line 1.

A partner must include the amount reported to it on lines 5(a) through (c) of Schedule K-3, Part IV, Section 1, in calculating the deductions properly allocable to the amount on line 4 included on line 5, Part I, of Form 8993. However, the partner must only include the portion of the amount on lines 5(a) through (c) of Schedule K-3, Part IV, Section 1, that are attributable to its gross DEI on line 4, Part I, of Form 8993.

Line 7. Partnership qualified business asset investment (QBAl).

A partner must include the amount reported to it on line 7, of Schedule K-3, Part IV, Section 1 in calculating the QBAl used to determine Deemed Tangible Income Return (DTIR) on line 2, Part II of Form 8993. However, the partner must only include the portion of the amount on line 7, of Schedule K-3, Part IV, Section 1 that is included in the adjusted

bases in its share of partnership specified tangible property.

Section 2. Other Tax Information

Section 2 reports the section 743(b) income adjustments allocated to you by source, separate category, and class of gross income. The section 743(b) income adjustments should be included as relevant in other parts of the Schedule K-3. For example, the section 743(b) income adjustments should be reflected as part of the total depreciation reported on Part II, Section 2. Therefore, you do not need to adjust other reported amounts for the section 743(b) income adjustments.

Section 3. Distributions From Foreign Corporations to Partnership

Use Section 3 to determine your share of distributions by foreign corporations to the partnership (with your share being reported in this Section 3) that are attributable to either PTEP or non-previously taxed E&P, and the amount of foreign currency gain or loss on distributed PTEP that you are required to recognize under section 986(c). The amount of foreign currency gain or loss on distributed PTEP that you are required to recognize under section 986(c) is equal to the excess of the U.S. dollar amount of the PTEP distributed to you over your U.S. dollar basis in the distributed PTEP. If the distributed PTEP was maintained in a functional currency other than the U.S. dollar, the U.S. dollar amount of the distributed PTEP is determined by translating the distributed PTEP into U.S. dollars using the spot rate on the date that the PTEP was distributed. See section 989(b)(4). Your U.S. dollar basis in the distributed PTEP is generally equal to the U.S. dollar amount of E&P that you previously included in gross income. See section 989(b)(1) and (3).

Report your share of the ordinary dividends on line 3b of Form 1040, or 1040-SR, U.S. Tax Return for Seniors. However, if any of the ordinary dividends are attributable to PTEP in annual PTEP accounts that you have with respect to a foreign corporation, reduce the amount you report on line 3b of Form 1040 or 1040-SR by the amount of the ordinary dividends that are attributable to PTEP in your annual PTEP accounts. See Notice 2019-01, 2019-02 I.R.B. 275.

Report your share of the qualified dividends on line 3a of Form 1040 or 1040-SR. However, if any of the qualified dividends are attributable to PTEP in annual PTEP accounts that you have with respect to a foreign corporation, reduce the amount you report on line 3a of Form 1040 or 1040-SR by the amount of the qualified dividends that are attributable to PTEP in your annual PTEP accounts. See Notice 2019-01, 2019-02 I.R.B. 275.

Include the amount of foreign currency gain or loss that you are required to recognize under section 986(c) in determining the amount to report on line 7(a) of Form 1040 or 1040-SR.

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

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

If the partnership is a domestic partnership that relies on Proposed Regulations section 1.958-1(d)(1) to treat it as not owning stock of a foreign corporation within the meaning of section 958(a) for purposes of section 951, or is a foreign partnership, then any subpart F income inclusions and section 951(a)(1)(B) inclusions reported on Part V are your inclusions and you should:

- Exclude the amounts of subpart F income and section 951(a)(1)(B) inclusion reported on Part V for CFCs with respect to which you are not a U.S. shareholder from the amount you report on line 7a of Form 1040 or 1040-SR, and
- Include the amounts of subpart F income and section 951(a)(1)(B) inclusion reported on Part V for CFCs with respect to which you are a U.S. shareholder in determining the amount you report on line 7a of Form 1040 or 1040-SR.

If the partnership is a domestic partnership that does not rely on Proposed Regulations section 1.958-1(d)(1), then any subpart F income inclusions and section 951(a)(1)(B) inclusions reported on Part V are inclusions of the partnership, of which you generally include in gross income a distributive share. In such a case, you should include the amounts of subpart F income and section 951(a)(1)(B) inclusion reported on Part V in determining the amount you report on line 7a of Form 1040 or 1040-SR, even if those amounts are reported for CFCs with respect to which you are not a U.S. shareholder.

Note that in determining the amount you report on line 7a of Form 1040 or 1040-SR, the section 951(a)(1)(B) inclusion amounts reported on Part V may be reduced under Regulations section 1.956-1(a)(2).

Report the tested income and tested loss for each CFC on Form 8992, Schedule A, columns (c) and (d), respectively.

Include your share of each CFC's items described in columns (h) through (m) in determining the amount to report on Form 8992, Schedule A, columns (e) through (j), respectively. For purposes of determining the tested loss QBAl amount to be reported in column (k), see Regulations section 1.951A-4(b)(1)(iv).

Schedule K-3, Part VI. Information to Complete Form 8621

U.S. persons may be required to complete and file Form 8621 with respect to entities that constitute passive foreign investment companies (PFICs) if they own an interest in a PFIC through a partnership. This includes PFICs with respect to which the U.S. person has made no election (section 1291 PFIC), as well as PFICs with respect to which the U.S. person has made a Qualified Electing Fund (QEF), Mark-to-Market (MTM), or other election. For information regarding the requirement to file Form 8621, as well as certain filing exceptions, see Regulations section 1.1298-1 and the Form 8621 instructions.

If you are required to file Form 8621, use the information provided in this Schedule K-3, Part VI, as instructed below to complete Form 8621 with respect to each PFIC for which you have a filing obligation.

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

Columns (a) through (e). Use this information to complete the background information required on Form 8621.

Columns (f) through (i). Enter this information on Form 8621, Part I, lines 1 through 4.

Column (j). If the partnership is a U.S. partnership, this column will indicate to you whether the partnership has made an election with respect to the PFIC which binds the partners. This column will indicate which election was made using the following codes.

Partnership Election Codes

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

Columns (k) through (o). Use the information provided in these columns to make any elections on Form 8621, Part II.

Section 2. Additional Information on PFIC or QEF

QEF Information

Columns (c) and (d). For each PFIC in which you are a shareholder through your ownership in the partnership, and with respect to which you (or the partnership, if it

is a U.S. partnership) have made a QEF election and are required to file Form 8621, enter these amounts on lines 6a and 7a of Form 8621, Part III, respectively.

Note. If you have a different tax year than the partnership issuing this Schedule K-3, Part VI, your share of the PFIC's ordinary earnings and net capital gain through your ownership in the partnership reported to you in columns (c) and (d) may not be the amounts you need to complete your Form 8621 and your U.S. federal income tax return. See section 1293(a) for additional information.

Note. Any amounts reported to you in this Section 2, columns (c) and (d), are not additionally reported to you as a distributive share item on Schedule K-1, Part III.

Mark-to-Market Information

Columns (e) and (f). This information is to assist you in computing the annual gain or loss in the value of marketable PFIC stock with respect to which you (or the partnership, if it is a U.S. partnership) have made an MTM election (MTM PFIC).

For each MTM PFIC in which you are a shareholder through your ownership in the partnership, and with respect to which you are required to file Form 8621, enter the amount in column (f) on line 10a of Form 8621, Part IV.

You may use the information in column (e) to assist you in determining your adjusted tax basis in the MTM PFIC in which you are a shareholder through your ownership in the partnership.

Your adjusted tax basis in the MTM PFIC stock may be equal to the fair market value of the stock at the beginning of the prior tax year reported in column (e). However, your adjusted tax basis may not be equal to the fair market value of the MTM PFIC stock depending on the amounts of prior year income inclusions and the amounts for which you were allowed a deduction with respect to the MTM PFIC. See sections 1296(a)(2) and 1296(d) for additional information. Once you have determined your adjusted tax basis in the MTM PFIC stock, enter that amount on line 10b of Form 8621, Part IV.

Note. Any amounts reported to you in this Section 2, columns (e) and (f), are not additionally reported to you as a distributive share item on Schedule K-1, Part III.

Section 1291 and Other Information

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

Note. The dates entered in this column (g) will be the dates on which the partnership

acquired the PFIC stock. If you acquired your partnership interest after the date listed with respect to a PFIC, you may have a different holding period with respect to such PFIC stock.

Column (h). Your share of the amount of cash and fair market value of property distributed by the PFIC during the tax year may be reported on different parts of Form 8621, depending on the type of PFIC the foreign corporation is to you.

Where on Form 8621 To Report Distributions From PFICs

IF you are a shareholder of a...	THEN...
section 1291 PFIC	enter this amount on line 15a of Form 8621, Part V.
QEF for which you are making a section 1294 election for the current tax year	enter this amount on line 8b of Form 8621, Part III, and on line 22 of Form 8621, Part VI. See Regulations section 1.1294-1T for additional information on deemed distributions by QEFs.
MTM PFIC	you do not need to enter this on Form 8621.

Column (i). This information is to help you assess any information related to the date of a distribution from a PFIC. You do not need to enter these dates on Form 8621.

Column (j). This information is to help you assess any available foreign tax credit to be entered on line 16d of Form 8621, Part V, for each section 1291 PFIC in which you are a shareholder through your ownership in the partnership, and with respect to which you are required to file Form 8621. See section 1291(g) for additional information on creditable foreign taxes.

Note. Your share of foreign taxes in column (j) includes only foreign taxes within the meaning of section 1291(g) and does not include taxes attributable to QEF inclusions under section 1293. If you are a corporate shareholder of a QEF that meets the ownership requirements of section 1293(f)(3), use Part VII to determine your deemed paid foreign tax credit under section 960, including with respect to inclusions under section 1293(f).

Column (k). For each section 1291 PFIC in which you are a shareholder through your ownership in the partnership, and with respect to which you are required to file Form 8621, enter this amount on line 15b of Form 8621, Part V.

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

Reminder. Your holding period of the PFIC stock may have begun on a different date than the partnership's holding period.

Columns (m) through (o). These columns are to assist you in computing any gain or loss on the partnership's disposition of PFIC stock.

For each MTM PFIC in which you are a shareholder through your ownership in the partnership, and with respect to which you are required to file Form 8621, enter the amounts in columns (m) and (n) on lines 13a and 13b, respectively, of Form 8621, Part IV. Your basis in the MTM PFIC shares as reported by the partnership should reflect adjustments made by the partnership with respect to the MTM PFIC, as well as any other partner-specific adjustments such as section 743(b) adjustments; you may also need to make corresponding adjustments to your basis in your partnership interest. See section 1296(b)(2) for additional information on adjustments to basis in MTM PFICs with respect to section 1296 income inclusions and deductions.

For each section 1291 PFIC in which you are a shareholder through your ownership in the partnership, and with respect to which you are required to file Form 8621, enter the amount in column (o) on line 15f of Form 8621, Part V. Your adjusted tax basis in the PFIC shares as reported by the partnership should reflect any partner-specific adjustments; you may also need to make corresponding adjustments to your basis in your partnership interest.

Note. If you have made a QEF or MTM election with respect to a PFIC which you own indirectly through the partnership, you may be required to adjust your share of the tax basis in the PFIC shares as reported by the partnership, and thus your gain or loss reported in column (o), by cumulative QEF inclusions and distributions made by the QEF; your basis in your partnership interest may need to be similarly adjusted. See section 1293(d) for more information on basis adjustments with respect to QEFs.

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

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 are 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 partner that is a corporate U.S. shareholder of a CFC held by a partnership,

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. See Regulations section 1.960-1(d)(2)(ii)(B). The tested income group consists of tested income within a section 904 category. See Regulations section 1.960-1(d)(2)(ii)(C). The residual income group consists of any income not in the other income groups or in a PTEP group. See Regulations Section 1.960-1(d)(2)(ii)(D). See Regulations Section 1.960-3(c)(3) with respect to the PTEP groups. The PTEP groups are not reported on this Schedule K-3, Part VII.

Schedule K-3, Part VII, reports your share of the CFC's net income in each income group. A domestic corporate partner (or an individual electing under section 962) will report its share of the net income in the subpart F income groups by CFC in column 6(a) of Form 1118, Schedule C (Section 960(a)). A domestic corporate partner (or an individual electing under section 962) will report its share of the net income in the tested income group by CFC in column 4 of Form 1118, Schedule D (Section 960(d)).

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

If you are a corporate partner of a partnership, use this part to obtain information from the partnership to determine your Base Erosion and Anti-Abuse Tax (BEAT) liability, if any. The BEAT is generally levied on certain large corporations that have deductions and certain other similar items paid or accrued to foreign related parties 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." Corporate partners that are applicable taxpayers under Regulations section 1.59A-2 may be subject to the BEAT. See Regulations section 1.59A-7 for further information regarding the application of section 59A to partnerships and the instructions for Form 8991 to determine whether a corporate partner is an applicable taxpayer subject to the BEAT. Certain small partners are not required to include the partner's amount of base erosion tax benefits attributed to a base erosion payment made by a partnership. See Regulations section 1.59A-7(d)(2) for further information regarding the application of the exception for small partners.

Section 1. Applicable Taxpayer

Lines 1 through 4. The amounts shown on lines 1 through 4 reflect the partner's

distributive share of gross receipts from the partnership's business or rental activities. The partner should use the information from lines 2 through 4 to complete line 1b of Part I, Form 8991.

Line 1. Gross receipts for section 59A(e).

This is the partner's distributive share of gross receipts for the tax year as described in Regulations section 1.448-1T(f)(2)(iv).

Line 5. Amounts included in the denominator of the base erosion percentage pursuant to Regulations section 1.59A-2(e)(3)(i)(B).

This is the partner's distributive share of the partnership's deductions to be included in the denominator of the partner's 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. Base Erosion Payments and Base Erosion Tax Benefits

The partner should use the information from lines 8 through 16 to complete lines 3 through 16 of Schedule A, Form 8991.

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

This is the partner's distributive share of amounts paid or accrued to a foreign person that is a related party of the partner 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). The amounts in columns (b) and (c) are included on line 3 of Schedule A, Form 8991.

Line 9. Rents, royalties, and license fees.

The amounts in columns (b) and (c) of line 9 are included on line 4 of Schedule A, Form 8991.

Line 10(a). Compensation/consideration paid for services NOT excepted by section 59A(d)(5). The amounts in columns (b) and (c) are included on line 5a of Schedule A, Form 8991.

Line 10(b). Compensation/consideration paid for services excepted by section 59A(d)(5). Column (a). The amount on line 10(b) is included on line 5b of Schedule A, Form 8991.

Line 11. Interest expense. The partnership has completed Worksheet A below for your distributive share of items. Use the information in the completion of your Form 8991.

Column (a). This is the partner's distributive share of all 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). This is the partner's distributive share of all interest expense 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) that is paid or accrued to a foreign person that is a related party of the partner.

Column (c). This is the partner's base erosion tax benefit attributable to interest expense paid or accrued by the partnership that is allowed as a deduction in the current tax year. See Regulations section 1.59A-3(b)(4) for more information on how a foreign corporation with a U.S. trade or business or permanent establishment determines the amount of interest that is a base erosion tax benefit.

For domestic corporate partners, the total amounts in columns (b) and (c) are to be included on line 6 of Schedule A, columns (a)(1), (a)(2), (b)(1), and (b)(2), on Form 8991.

For foreign corporate partners, the amounts in each column (b) (Base Erosion Payment) and (c) (Base Erosion Tax Benefit) are used to determine the amounts to be included on line 6 of Schedule A, columns (a)(1), (a)(2), (b)(1), and (b)(2), on Form 8991.

Line 12. Payments for the purchase of tangible personal property. The amounts in columns (b) and (c) of line 12 are included on line 7 of Schedule A, Form 8991.

Line 13. Premiums and/or other consideration paid or accrued for reinsurance as covered by section 59A(d)(3) and section 59A(c)(2)(A)(iii). The amounts from columns (b) and (c) of line 13 are included on line 8 on Schedule A, Form 8991.

Line 14a. Nonqualified derivative payments. The amounts on this line are

reported on line 9 on Schedule A, Form 8991.

Column (a). This is the partner's distributive share of all amounts paid or accrued by the partnership attributable to derivative contracts as defined in section 59A(h)(4).

Column (b). This is the partner's distributive share of amounts paid or accrued by the partnership to a foreign person that is a related party of the partner attributable to derivative contracts that are not eligible for the qualified derivative payments exception under Regulations section 1.59A-6 (nonqualified derivative payments).

Column (c). This is the partner's base erosion tax benefit attributable to nonqualified derivative payments paid or accrued by the partnership to a foreign person that is a related party of the partner.

Line 14b. Qualified derivative payments excepted by section 59A(h). This is the partner's distributive share of qualified derivative payments excepted by section 59A(h). 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.

The amount from line 14(b) is included on line 9 of Schedule A, Form 8991. The partner meets the reporting requirements of Regulations sections 1.59A-6(b)(2) and 1.6038A-2(b)(7)(ix) by entering the amount from line 14b on line 9b on Schedule A, Form 8991. For tax years beginning after June 7, 2021, a partnership will also need to attach to its Form 1065 a written representation that all payments satisfy the requirements of Regulations section 1.59A-6(b)(2) to meet the reporting requirements 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. The amounts from columns (b) and (c) of line 15 are included on line 10 of Schedule A, Form 8991.

Line 16. Other payments—specify. The amounts from columns (b) and (c) of line 16 are included on line 11 of Schedule A, Form 8991.

Line 17(c). Base erosion tax benefits related to payments included 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.

Line 18(c). Portion of base erosion tax benefits included 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 reduced withholding rate pursuant to income tax treaty. Multiply ratio of percentage withheld divided by 30% (0.30) times tax benefit. The amount on line 18(c) is included on line 13, Schedule A, Form 8991.

For more information regarding this computation, see the instructions and Worksheet for Schedule A, line 15, column b-2, Form 8991.

The amount on line 18 is included on line 15 of Schedule A, Form 8991.

Line 19(c). Total base erosion tax benefits. The partner should use the information on Section 1, lines 1 through 5, and Section 2, line 19, column (c), to assist in the partner's determination of whether the partner is an applicable taxpayer and to complete the applicable lines on Form 8991 and Schedule A.

Schedule K-3, Part IX. Foreign Partner's Character and Source of Income and Deductions

Use this part if you are a foreign person that earns ECI from U.S. and/or foreign sources and/or U.S. source FDAP to determine if you have a U.S. tax obligation for the applicable tax year. You may be required to compute your U.S. income tax liability and file U.S. income tax returns and forms (for example,

Worksheet A—Foreign Partner's Distributive Share of Interest Paid 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) Foreign Partner's Distributive Share of Interest Expense on Liabilities Described in Regulations section 1.882-5(A)(1)(ii)(A) or (B) (Direct Allocations)			
(2) Foreign Partner's Distributive Share of Interest Paid on U.S. Booked Liabilities under Regulations section 1.882-5(d)(2)(vii)			
(3) Foreign Partner's Distributive Share of Interest Paid on all Other Liabilities of the Partnership			
Totals. Combine Line (1) through Line (3)			

Form 1120-F, Form 1040-NR, and other applicable forms). Also, if you are a U.S. or foreign person that has entered into a section 871(m) transaction that references units in the partnership, use Section 4 of this part to determine your U.S. withholding tax and reporting obligations with respect to those transactions under section 871(m) and related sections, including for purposes of determining the amounts to report on Forms 1042 and 1042-S.

Section 1. Gross Income

The partnership uses Part IX to report your share of income that is subject to tax in the United States. Keep it for your records. You must report items of income from your Part IX on your tax return and accompanying schedules. Each line in this section of the schedule corresponds to a line on the existing Form 1065, Schedule K, lines 1 through 11. For a more detailed description of the types of income listed in each line, see the Partner's instructions for Part III, Income (Loss), on Schedule K-3 (Form 1065).

Column (a). Total. This is your share of the partnership's gross income.


Column (b). Partner determination. If income is reported in column (b), it means that the partnership was unable to determine the income's source. You must determine the source of income in column (b).

The source of income is important in determining how to report income on your tax return. Each type of income has its own sourcing rules. For example, if you have capital gains listed in column (b), you must determine the source of such gain under section 865. For more information on sourcing rules for particular items of income, see Pub. 514 and section 865. Once you have determined the source of the income in column (b), use the statement the partnership attached to the Schedule K-3 to report the income as ECI, FDAP, or Other if U.S. source and stating whether the income would be ECI if it were foreign source.

Column (c). U.S. Source Non-ECI (FDAP).

Nonresident aliens. Generally, amounts of U.S. source non-ECI listed in column (c) are entered on your Form 1040-NR, Schedule NEC.

Foreign corporation. Generally, amounts of U.S. source non-ECI from column (c) are reported on your Form 1120-F, Section I.

 *Although the partnership determined this income is not effectively connected to its trade or business, the income could be effectively connected to your U.S. trade or business. For example, if you elected to treat income reported in line 2 as ECI under section 871(d) or 882(d), you should report the income as ECI on your tax return even though the partnership reported it as non-ECI. See Pub. 519, U.S. Tax Guide for Aliens, or the Instructions for Form 1120-F for more information on when U.S. source income is ECI.*

Column (d). U.S. source Non-ECI (Other).

If you are engaged in any trade or business within the United States, report these amounts as ECI on your tax return as directed by the Instructions for Form 1040-NR or the Instructions for Form 1120-F. If you are not so engaged, you do not need to report these amounts on your tax return. Transportation income subject to tax under section 887 is reported on line 58 of the Form 1040-NR and Form 1120-F, page 1, Section 1, line 9, as applicable.

Columns (f) and (g). Effectively connected income.

Nonresident aliens.

Lines 1 through 5. Report ECI in lines 1 through 5 on Schedule E, attaching it to your tax return. See the Income (Loss) section of the Partner's Instructions for Schedule K-1 (Form 1065) for more information on how to complete Schedule E.

Line 6. Interest income. Report amounts of ECI listed in line 6 (Interest Income) on line 9a of your Form 1040-NR.

Line 7. Dividends. Report amounts of ECI listed in line 7 (Dividends) on line 10a or 10b of your Form 1040-NR.


Line 9. Royalties. Report amounts of ECI listed in line 8 (Royalties) on line 10a or 10b of your Form 1040-NR.

Lines 10 through 14. Report amounts of ECI listed in lines 10-14 on Schedule D (Form 1040) or Form 4797 attached to your tax return. Such amounts include, for example, gains from the disposition of a U.S. real property interest. See the Partner's Instructions for Form 1065, Schedule K-1, Part III, Income (Loss), and the instructions for Form 1040-NR, lines 14 and 15, for more information on how to report this income.

Line 15. Other income. Follow the Partner's Instructions for Schedule K-1 (Form 1065), Part III, box 11.

Foreign corporations. With respect to reporting for foreign corporations, report the total amount of gross ECI on lines 1 through 3 on Form 1120-F, Schedule P, Part II, line 3. Report other amounts of gross ECI on lines 4 through 14 on Form 1120-F, Schedule P, Part II, line 8. Also report gross ECI on Section II as directed by the Instructions for Form 1120-F.

Note. Do not report foreign source income listed in column (g) as ECI if you determine it is subpart F income as defined under section 952(a).

 *Do not report income listed in column (g) as ECI if it is dividends, interest, or royalties paid by a foreign corporation in which you own or are 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.*

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 with income 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. Section 2 also generally corresponds to the deductions separately reported on Form 1065, Schedule K.

Add the foreign corporation's share of partnership expenses to the foreign corporation's expenses and enter those expenses on Form 1120-F, Schedule H. The following instructions provide specific instructions for reporting expenses on Form 1120-F. See the Instructions for Form 1040-NR to determine the appropriate placement of the nonresident alien partner's share of the partnership's expenses.

Column (b). Partner determination.

Include the foreign corporation's share of partnership expenses that must be apportioned to ECI by the foreign corporation on Form 1120-F, Schedule H, Part II. This includes R&E expenses and interest expense.

Columns (c) through (e). Partner determination—Non-ECI. Enter the foreign corporation's share of partnership deductions definitely related and allocated to non-ECI on Form 1120-F, Schedule H, Part I.

Columns (f) and (g). Partner determination—ECI. Enter the foreign corporation's share of partnership deductions definitely related and allocated to ECI on Form 1120-F, Schedule H, Part I.

Line 2. R&E expense. Add the foreign corporation's share of partnership R&E expenses to the foreign corporation's other R&E expenses and apportion such R&E expenses to ECI. Enter the resultant amount on Form 1120-F, Schedule H, Part II, line 16. See Regulations section 1.861-17(f). If the foreign corporation uses the sales method to apportion R&E expense, the foreign corporation must add its share of partnership sales reported in Part IX, Section 3, line 5, to its other sales. If the foreign corporation uses the gross income method to apportion R&E expense, the foreign corporation must add its share of partnership sales reported in Part IX, Section 3, line 6, to its other gross income.

Line 7. Interest expense on U.S.-booked liabilities. A foreign corporate partner reports its share of interest expense on the partnership's U.S.-booked liabilities, as

described in Regulations section 1.882-5(d)(2)(vii), on Form 1120-F, Schedule I.

Line 10. Section 59(e)(2) expenditures. R&E expenses are not included on this line. R&E expenses that are also section 59(e)(2) expenditures are included 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)(1)(B), and Regulations section 1.882-4(b) for more information.



If Part I, box 6, is checked, interest or royalty expense may include amounts for which the partner is not allowed a deduction under section 267A. See the statement with respect to Part I, box 6, attached to Schedule K-3.

Section 3. Allocation and Apportionment Methods for Deductions

Section 3 provides information you may use to apportion deductions to ECI or non-ECI. See Regulations section 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.

Line 1a. Gross ECI. Enter the amount reported on this line on Form 1120-F, Schedule H, Part III, line 21a.

Line 1b. Worldwide gross income. Enter the amount reported on this line on Form 1120-F, Schedule H, Part III, line 21b.

Line 2. Average U.S. assets (inside basis). If you use the ratio of the U.S. assets (inside basis) to the worldwide assets method to apportion expenses to ECI, check the "Yes" box for Form 1120-F, Schedule H, Part III, line 24, and attach a statement.

Line 4a. Enter the amount reported on this line on Form 1120-F, Schedule H, Part III, line 23a

Line 4b. Worldwide personnel. Enter the amount reported on this line on Form 1120-F, Schedule H, Part III, line 23b.

Lines 5 and 6. If you have R&E expense, use the appropriate information from line 5 or line 6. Attach a statement to Form 1120-F indicating the methodology used to apportion R&E expense.

Lines 7 and 8. Check the "Yes" box on line 24 or 25 of Form 1120-F, Schedule H,

Part III, if you used another apportionment method based on amounts entered on lines 7 and 8. Attach a statement to Form 1120-F.

Section 4. Section 871(m) Covered Partnerships

This section will be provided if the partnership 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. The information in this section is to permit you to determine your U.S. withholding tax and reporting obligations under section 871(m) and related rules if you are a U.S. or foreign person that has entered into a section 871(m) transaction that references units in the partnership, including for purposes of determining the amounts to report on Forms 1042 and 1042-S.

If you have entered into a potential section 871(m) transaction with another person that references units in the partnership, you may need this information to determine your obligations under section 871(m) and related rules. Generally, a potential section 871(m) transaction is a securities lending or sale-repurchase transaction, a notional principal contract, or any other specified financial transaction that references one or more underlying securities, and an underlying security is any interest in an entity that could give rise to a U.S. source dividend. See Regulations section 1.871-15 for additional information, including the definitions of underlying securities and potential section 871(m) transactions.

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

Use this part to determine the information you must report with respect to effectively connected gain or loss arising from the transfer of an interest in a partnership.

In general. Section 864(c)(8) requires a foreign partner that transfers part or all of an interest in a partnership engaged in the conduct of a trade or business in the United States to include in income the effectively connected gain or loss from the transfer. A partnership distribution is considered a

transfer when it results in recognition of gain or loss. See Regulations section 1.731-1(a). A foreign partner that transfers an interest in this type of partnership must provide information regarding the transfer to the partnership no later than 30 days after the transfer. See Pub. 541 for more information.

To determine the amount of gain or loss described in section 864(c)(8), generally, a foreign transferor must first determine its gain or loss on the transfer of a partnership interest ("outside gain" and "outside loss"). For this purpose, outside gain or loss is determined under all relevant provisions of the Code and the regulations thereunder. A foreign transferor may recognize capital gain or loss ("outside capital gain" or "outside capital loss") and ordinary gain or loss ("outside ordinary gain" or "outside ordinary loss") on the transfer of its partnership interest and must separately apply section 864(c)(8) with respect to its capital gain or loss and its ordinary gain or loss. Part X, line 1, provides the information for the partner to determine its outside ordinary gain or outside ordinary loss. The partner then applies Regulations section 1.751-1(a)(2) to determine its outside capital gain or loss.

Line instructions. The foreign transferor must compare the outside gain or loss amounts with the relevant aggregate deemed sale effectively connected gain or loss provided on Part X, lines 2 and 3. This determination is made separately with respect to capital gain or loss and ordinary gain or loss. For example, a foreign transferor would compare its outside ordinary gain to its aggregate deemed sale effectively connected ordinary gain, treating the former as effectively connected gain only to the extent it does not exceed the latter. The amount determined is entered on Form 4797. Similarly, the foreign transferor would compare its outside capital gain to its aggregate deemed sale effectively connected capital gain, treating the former as effectively connected gain only to the extent it does not exceed the latter. The amount determined is entered on Form 8949, Sales and Other Dispositions of Capital Assets, depending on whether the gain is short-term or long-term capital gain. Compare losses by using the absolute value of each number, so that the transferor recognizes the number that is closer to zero. If an amount is entered on line 4, use it to determine gain or loss from the transfer of the partnership interest when completing Form 8949.