



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

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

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

Future Developments

For the latest information about developments related to Form 1065 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1065](https://www.irs.gov/Form1065).

What’s New

New exception to completing Schedule K-3. Under a new exception, in certain cases, partnerships with no or limited foreign activity are not required to furnish Schedule K-3 to you for tax years beginning in 2022. See *Domestic Filing Exception* in the Partnership Instructions for Schedules K-2 and K-3 (Form 1065).

Reporting by domestic partnerships with solely domestic activity and U.S. partners. The instructions provide further guidance and examples concerning the information a domestic

partnership with solely domestic activity may be reporting to you to assist you in completing your tax returns.

Revised reporting for box 1 of Part I. The table attached to Schedule K-1 with respect to box 1 of Schedule K-3, Part I, has been revised to require reporting of gains rather than both proceeds and basis. Also, instead of reporting the date of sale of the property, if the gain is capital, the partnership will now report whether the gain is long term or short term. Finally, the partnership may combine stock sales by country instead of listing each stock sale separately for that country.

Boxes 7, 8, and 9. The instructions clarify the reporting with respect to Forms 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations; 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund; 8858, Information Return of U.S. Persons With Respect to Foreign Disregarded Entities (FDEs) and Foreign Branches (FBs); and 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships; and other forms.

New box 12 on Schedule K-3, Part I, for Form 8865. If the partnership transferred property to a foreign partnership that would subject one or more of its domestic partners to reporting under section 6038B and Regulations section 1.6038B-2(a)(2) but did not file Schedule O (Form 8865), Transfer of Property to a Foreign Partnership (Under Section 6038B), containing all the information required under Regulations section 1.6038B-2, with respect to the transfer, the partnership must provide the necessary information for each partner to fulfill its reporting requirements under Regulations section 1.6038B-2.

New box 13 for other items of international tax relevance. The instructions clarify additional information that may be provided to you with respect to box 13 (formerly box 12).

Country codes. The instructions clarify the use of country codes and add a new code “XX.”

Capital gains and losses. The instructions clarify the reporting of capital gains and losses in Parts II and X.

Interest expense and stewardship expense apportionment. The instructions clarify the use of information from Part II, Section 2, and Part III, Section 2, and expand the section to cover stewardship expense.

Foreign tax redeterminations. The instructions include new guidance on how to use the information on and attached to Schedule K-3 to report foreign tax redeterminations on Forms 1116 and 1118.

Final regulations apply aggregate treatment to domestic partnerships for certain purposes. Final regulations under section 958 published on January 25, 2022, treat a domestic partnership as an aggregate of its partners for purposes of sections 951, 951A, and 956(a), and for purposes of any provision that specifically applies by reference to any of those sections or the regulations thereunder. See Regulations section 1.958-1(d)(1). Under the final regulations, except for purposes of

determining U.S. shareholder, controlling domestic shareholder, and controlled foreign corporation (CFC) statuses, a domestic partnership is not treated as owning the stock of a foreign corporation within the meaning of section 958(a). For purposes of determining the persons that own stock of a foreign corporation under section 958(a), stock of a foreign corporation owned by a domestic partnership is treated in the same manner as stock of a foreign corporation owned by a foreign partnership. The final regulations apply to tax years of foreign corporations beginning on or after January 25, 2022, and to tax years of U.S. persons in which or with which such foreign corporations' tax years end. However, a domestic partnership may apply the final regulations to tax years of a foreign corporation beginning after December 31, 2017, and to tax years of the domestic partnership in which or with which such tax years of the foreign corporation end, provided certain consistency requirements are met. See Regulations section 1.958-1(d)(4)(i).

Updates to references to mark-to-market (MTM) elections in Part VII. The instructions clarify that MTM elections for PFICs referenced in the instructions generally refer to elections under section 1296 and not any other section of the Code or regulations.

Subpart F income groups added to Part VIII. In tax year 2022, new line 1(f) was added to Part VIII to allow you to report foreign personal holding company income under section 954(c)(1)(F) (income from notional principal contracts), section 954(c)(1)(G) (payments in lieu of dividends), and section 954(c)(1)(H) (personal service contracts) on Forms 1116 and 1118.

General Instructions

The Partner's Instructions for Schedule K-1 (Form 1065) generally apply to Schedule K-3, including *Inconsistent Treatment of Items and Errors*. These instructions provide additional information specific to Schedule K-3 for tax years beginning in 2022.

Purpose of Schedule K-3

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, if applicable. See separate parts for specific instructions. You only need to use the schedules that are applicable to you. For example, in general, if the partner receiving Schedule K-3 is a domestic corporation, the partnership did not complete and file Part X, Foreign Partner's Character and Source of Income and Deductions, because that part is inapplicable to domestic corporation partners. If the partner receiving Schedule K-3 is itself a partnership, it will use information from Schedule K-3 to complete Schedules K-3 to report to its partners.

The proper treatment of certain items by the partner are dependent on information that the partnership may not have, and thus the partnership may have reported certain information on the Schedule K-3 based on assumptions that are incorrect. In such cases, the partner must treat the items according to the partner's actual facts, and file a Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), to identify and explain the inconsistency.

Domestic partnerships with no or limited foreign activity. A partnership with no foreign source income, no assets generating foreign source income, and no foreign taxes paid or accrued may be reporting information to partners on Schedule K-3. For example, if you claim a credit for foreign taxes paid and/or accrued separately from your partnership interest, you may need certain information from the partnership to complete Form 1116 or 1118. Also, if you are a domestic corporation, information from a domestic partnership may be

required to complete Part IX when the partnership makes certain deductible payments to foreign parties related to you. The information reported in Part IX will assist you as a domestic corporation in determining the amount of base erosion payments made through the partnership, and in determining if you are subject to the base erosion and anti-abuse tax (BEAT). See also Part IV concerning foreign-derived intangible income (FDII) for when a domestic partnership with solely domestic activity may be reporting information to you, and Part XI for when a domestic or foreign publicly traded partnership as defined in section 7704(b) (PTP) with no foreign activity may be reporting information to you.

Example 1. Foreign corporation wholly owns DC, a domestic corporation, and FC, a foreign corporation. DC satisfies the gross receipts test. See Regulations section 1.59A-2(d). In Year 1, DC owns a 50% interest in domestic partnership USP. An unrelated domestic corporation owns the remaining 50% interest in USP. DC's investment in USP does not qualify for the small partner exception. See Regulations section 1.59A-7(d)(2). In Year 1, USP pays FC \$100 for services. The services are not eligible for the services cost method exception. See Regulations section 1.59A-3(b)(3)(i). DC's distributive share of the \$100 payment to FC is \$50. For purposes of determining whether a payment or accrual by a partnership is a base erosion payment, any amount paid or accrued by USP 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. See Regulations section 1.59A-7(d)(2). Therefore, DC is treated as having paid \$50 to FC. DC must complete Form 8991 to compute its base erosion minimum tax amount (if any); therefore, DC receives Part IX of Schedule K-3 (Form 1065) from USP.

How To Use Schedule K-3

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

References to other forms. References in these instructions to Form 1040, U.S. Individual Income Tax Return, are intended, if applicable, to include Form 1040-SR, U.S. Tax Return for Seniors, as well as other tax returns for noncorporate partners such as Form 1041, U.S. Income Tax Return for Estates and Trusts. Similarly, references to Form 1120, U.S. Corporation Income Tax Return, are intended, if applicable, to apply to other forms in the 1120 series. References to forms which have been replaced are intended, if applicable, to include the replacement forms.

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

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

Part II. Used to determine your distributive 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 figure a foreign tax credit on Form 1116 or 1118.

Part III. Used to determine the allocation and apportionment of research and experimental (R&E) expense, interest expense, and FDII deduction for purposes of the foreign tax credit limitation. Also use this part to determine your distributive share of the partnership's creditable foreign taxes paid or accrued, and to determine income adjustments under section 743(b) by source and separate category. Partners will use the information to figure and claim a foreign tax credit on Form 1116 or 1118.

Part IV. Used to determine your deduction with respect to FDII. Partners will use the information to claim and figure 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).

Part V. Used, in combination with other information known to you, such as from Schedule P (Form 5471), to determine your share of distributions by foreign corporations to the partnership that are attributable to previously taxed earnings and profits (PTEP) in your annual PTEP accounts with respect to the foreign corporations (which are excludable from your gross income) or non-previously taxed earnings and profits (E&P), and the amount of foreign currency gain or loss on the PTEP that you are required to recognize under section 986(c). Use the information to figure and report the dividends and foreign currency gain or loss on Form 1040 and Form 1120. Also use the information to claim and figure a foreign tax credit on Form 1116 or 1118.

Part VI. Used to determine your income inclusions under sections 951(a) and 951A if you are a U.S. shareholder of any of the listed CFCs. 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 income inclusions, section 951(a)(1)(B) inclusions, and section 951A inclusions.

Part VII. Used to complete Form 8621, and to provide information required to determine your inclusion with respect to the passive foreign investment company (PFIC).

Part VIII. Used to determine your deemed paid taxes on inclusions under section 951A, 951(a)(1), or 1293(f). Domestic corporate partners and partners making a section 962 election will use the information to figure a deemed paid foreign tax credit on Form 1118.

Part IX. Used to figure the BEAT. Corporate partners will use the information to complete Form 8991, Tax on Base Erosion Payments of Taxpayers With Substantial Gross Receipts.

Part X. Used to provide information to a foreign partner (or a pass-through entity partner with a foreign owner) to determine its tax liability or reporting requirements 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. Partners will use the information to figure and report any U.S. tax liability on Forms 1040-NR, U.S. Nonresident Alien Income Tax Return; Forms 1120-F, U.S. Income Tax Return of a Foreign Corporation; or other applicable forms.

Part XI. Certain partners that have entered into section 871(m) transactions referencing units in the partnership will use any information reported in this part 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 XII. Reserved.

Part XIII. 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.

Specific Instructions Schedule K-3 Identifying Information

Item E—Part applicability. The partnership checked the “Yes” box to indicate the applicable parts of Schedule K-3. The partnership checked the “No” box to indicate the inapplicable parts of Schedule K-3.

Part I. Partner’s Share of Partnership’s Other Current Year International Information

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

Box 1. Gain on personal property sale. In general, income from the sale of personal property is sourced according to the residence of the seller. See section 865. If the partnership sells nondepreciable 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 alien individual, the gain is U.S. source. However, a U.S. citizen or resident alien individual with a tax home (section 911(d)(3)) in a foreign country is treated as a nonresident if an income tax of at least 10% is imposed by and paid to a foreign country regarding such sale. See section 865(g)(2). See also sections 865(e)(1) and 865(h) for other sourcing provisions for which the information provided in box 1 may be helpful.

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 a foreign country, such gain is foreign source income and reported on Form 1116. For more information, see the instructions later for 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 Schedule I (Form 1118) to Schedule K-3. If you are a corporation, use the partially completed Schedule I to complete your Schedule I (Form 1118). 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 of a payor if in connection with a splitter arrangement the income is or will be taken into account by a covered person. See Regulations section 1.909-2(a). A covered person, as defined in Regulations section 1.909-1(a)(4), includes, for example, any entity in which the payor holds, directly or indirectly, at least a 10% ownership interest (determined by vote or value). A payor, as defined in Regulations section 1.909-1(a)(3), includes, for example, a person that takes foreign income taxes paid or accrued by a partnership into account pursuant to section 702(a)(6).

If the 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 the partnership knows or has reason to know an entity that took into account related income from the arrangement is a covered person with respect to one or more 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 (determined by vote or value) 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 4, 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 for a 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 1116, as applicable. If you are required to complete Form 5471, for a CFC, report the unsuspended taxes on Form 5471, Schedule E-1, column (d), line 3a.

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



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

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

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 will attach Worksheets 1 and/or 2.

Use Schedule K-3 and your taxes on your other passive income (that is, passive income that is not attributable to your distributive share of the partnership's income as reported on Schedule K-3) to determine if you need to assign passive income and the associated taxes to another separate category of income. You must allocate and apportion your 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 X, Section 2, to the extent listed in the statement as an amount for which a deduction is disallowed under section 267A. In addition, you may be required to report the amount of your disallowed deductions under section 267A. See, for example, Form 1120, Schedule K, Question 21, and 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 the 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.

Boxes 7 through 9. If applicable, the partnership will attach the relevant portions of Form 5471; Form 5713, International Boycott Report; and other relevant international tax forms. If the partnership has filed Form 8990, Limitation on Business Interest Expense Under Section 163(j), the partnership will also provide on Schedule K-1 the information needed to complete Form 8990, Schedule A, for foreign partners which are required to report their distributive share of excess business interest expense, excess taxable income, and excess business interest income, if any, that is attributable to income effectively connected with a U.S. trade or business.

If the partnership attached Form 8858, Form 8621, or both to its Form 1065, box 7 or 9, or both, are checked. If you need information from these forms, request it from the partnership.

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



There might be a partner loan transaction even if the partnership did not identify one, given that the partnership did not have the information available to the partner.

Box 11. Dual consolidated loss. If the partnership checked box 11 and you are a domestic corporation (other than a regulated investment company (RIC), a real estate investment trust, or an S corporation), the dual consolidated loss (DCL) rules pursuant to Regulations section 1.1503(d)-1 through 1.1503(d)-8 may apply to your share of certain partnership items. In order to comply with the DCL rules, you may need information in addition to that provided by the partnership in this schedule (for example, your share of the income or DCL attributable to the partnership's foreign branch or interest in a hybrid entity).

Box 12. Form 8865 information. If the partnership transferred property to a foreign partnership that would subject one or more of its domestic partners to reporting under section 6038B and Regulations section 1.6038B-2(a)(2) but did not file Schedule O

(Form 8865), Transfer of Property to a Foreign Partnership (Under Section 6038B), containing all the information required under Regulations section 1.6038B-2, with respect to the transfer, the partnership must provide the necessary information for each partner to fulfill its reporting requirements under Regulations section 1.6038B-2. The partnership should attach the relevant information to Schedule K-3, as applicable to the partner.

Box 13. Other international items. If the partnership has transactions, income, deductions, payments, or anything else that implicates the international tax provisions of the Internal Revenue Code and such items are not otherwise reported on this part or other parts of Schedule K-3, the partnership reported that information on a statement and checked box 13.

If you are a CFC partner (or in the case of a pass-through entity partner, your partner is a CFC), the partnership attached information to Schedule K-3 so that the U.S. shareholder may complete the Form 5471. If you are a controlled foreign partnership (CFP) partner (or in the case of a pass-through entity partner, your partner is a CFP), the partnership attached information to Schedule K-3 so that the U.S. partner in the CFP may complete Form 8865.

Parts II and III

Schedule K-3, Parts II and III, report information you use to figure the foreign tax credit. In general, a U.S. individual, U.S. citizen or U.S. resident individual beneficiary of certain domestic estates and trusts, or domestic 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 lesser of the foreign taxes paid or accrued or the U.S. tax on foreign source income. The limitation is figured by separate categories of foreign source income, including foreign branch category, passive category, and general category. 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 the Schedule K-3 you file if you are a partnership receiving Schedule K-3 as a partner in the partnership. For example, another domestic partnership or a foreign partnership will need to report the share of foreign source income and taxes on the Schedule K-3 (Form 1065 or 8865), Parts II and III. Similarly, if you are a CFC partner in the partnership, the U.S. shareholder of the CFC will need to report the information reported on your Schedule K-3, Parts II and III, on Form 5471, in particular, Schedule E.

Partnership with solely domestic activity. In many instances, a partnership with no foreign partners, no foreign source income, no assets generating foreign source income, and no foreign taxes paid or accrued may have reported information on Schedule K-3. For example, if you claim the foreign tax credit, you generally need certain information from the partnership on Schedule K-3, Parts II and III, to complete Form 1116 or 1118. This information should have been reported in prior years, including before the Tax Cuts and Jobs Act, with the Schedules K and K-1, and is information you need to compute the foreign tax credit limitation, which determines the amount of foreign tax credit available to you.

Exceptions. You may not have received Schedule K-3 if the partnership was eligible for an exception. See *Domestic Filing Exception* in the Partnership Instructions for Schedules K-2 and K-3 (Form 1065). Also, if you (or, if you are a pass-through entity, your direct or indirect partner) are eligible to claim a foreign tax credit, you are not required to receive Schedule K-3,

Parts II and III, if you or your partners are not required to complete Form 1116. This could be the case, for example, because you (or, if you are a pass-through entity, your direct or indirect partners) qualify for an exception to filing the Form 1116. See section 904(j) and the Form 1116 Exemption in the Partnership Instructions for Schedules K-2 and K-3 (Form 1065). However, see reasons below for requesting the Schedule K-3 when you are required to file Form 1116.

Example 2. Husband and wife, U.S. citizens, each own a 50% interest in USP, a domestic partnership. USP invests in a RIC. USP receives a Form 1099 from the RIC reporting \$100 of creditable foreign taxes paid or accrued on passive category foreign source income. USP does not have any foreign activity aside from that of the RIC. USP notifies husband and wife on an attachment to the Schedule K-1 that they will not receive the Schedule K-3 unless they so request. Husband and wife do not request Schedule K-3 from USP for tax year 2022. Because USP qualified for the Domestic Filing Exception, USP did not complete Schedule K-3 for husband and wife.

Reasons to request Schedule K-3 from domestic partnerships with limited or no foreign activity. Section 904 generally limits the foreign tax credit to the portion of U.S. tax liability attributable to foreign source taxable income. Foreign source taxable income is foreign source gross income less allocable expenses. In general, the partnership completed the Schedule K-3, Parts II and III, because the partnership's gross income, gross receipts, expenses, assets, and foreign taxes paid may affect the foreign tax credit available to the partner. The source of certain gross income is determined by the partner. In addition, some expenses of the partnership are allocated and apportioned by the partner. Because the foreign tax credit limitation is computed by the partner, it is not possible for the partner to assume that all income of the partnership is U.S. source and all expenses of the partnership reduce U.S. source income. Also, the allocation and apportionment of certain partner expenses take into account distributive shares of assets and income of the partnership that are not otherwise reported on the Schedule K-1. For example, for sourcing purposes, personal property sold by the partnership is treated as sold by the partners. See section 865(i)(5). Generally, income from the sale of certain personal property (excluding inventory) is sourced according to the residence of the seller. In cases in which the partner is a pass-through entity, the partnership might not know the ultimate residence of the first non-pass-through partner. The distributive share of the partnership's gain on the sale of personal property is not separately stated on Schedule K-1, but is reported on Schedule K-3, Part II.

As another example, the partner's R&E expense (which includes the distributive share of the partnership's R&E expense) is allocated and apportioned by the partner. See Regulations section 1.861-17(f). R&E expense is allocated and apportioned based on the gross receipts by SIC code. The distributive share of the R&E expense by SIC code is not separately stated on Schedule K-1, but is reported on Schedule K-3, Part II. The partner needs Schedule K-3, Part III, Section 1, for the partner's share of the partnership's gross receipts by SIC code for purposes of allocating and apportioning R&E expense.

In some cases, the partner will be able to use the information reported on Parts II and III to increase the foreign tax credit limitation, and the amount of available foreign tax credit to the partner. For example, Schedule K-3, Part III, Section 2, provides the partner with the tax book value of the assets of the partnership. In general, a partner apportions interest expense to reduce U.S. source gross income or foreign source gross income based on the tax book value of its assets, including its distributive share of the partnership's interest expense and assets. See section 864(e)(2) and Regulations section 1.861-9(e). Taking into account the assets of a domestic partnership generating solely U.S. source income would result in

more expense allocated to U.S. source gross income and less expense allocated to reduce foreign source gross income. Additional foreign source income increases the partner's foreign tax credit limitation, and the ability of the partner to claim foreign tax credits. The regulations provide exceptions to asset method apportionment for certain less-than-10% limited partners, and the instructions take this into account such that the partnership is not required to provide these partners with certain portions of Schedule K-3. Schedule K-1 does not separately state the distributive share of the partnership's total interest expense, or the tax book value of the assets, whereas the Schedule K-3 contains this information. See Regulations section 1.861-9(e). See later instructions for further guidance.

Example 3. U.S. citizens A and B own equal interests in USP, a domestic partnership. USP has no foreign activity. In Year 1, A pays \$2,000 of foreign income taxes on passive category income other than capital gains reported to A on a payee statement. A has interest expense of \$5,000 and USP does not have interest expense. None of A's interest expense is directly allocable. A does not have an overall domestic loss in tax year 2022.

Because A must complete Form 1116 to claim a foreign tax credit, A requests a Schedule K-3 by the one-month date, and therefore the Domestic Filing Exception does not apply to USP with respect to A. USP provided Parts II and III of Schedule K-3 to A. A's share of the tax book value of USP's assets is \$50,000, which is reported on Schedule K-3, Part III, Section 2, column (a). Not including its distributive share of the assets of USP, the tax book value of A's assets is \$50,000. Of A's assets, \$10,000 generate passive category foreign source income and \$40,000 generate U.S. source income. A has passive category foreign source taxable income before interest expense of \$8,000. A's U.S. tax rate is 25%. A's interest expense and USP's assets are characterized in the same category under sections 163 and 469 for purposes of Regulations section 1.861-9T(d). A uses the tax book value (as opposed to the alternative tax book value) to allocate and apportion interest expense.

A's interest expense is apportioned between U.S. source and foreign source income ratably based on the tax book value of A's U.S. source and foreign source assets. Without taking into account the distributive share of USP's assets, the amount of A's interest expense that would reduce foreign source gross income is \$1,000 ($\$5,000 \times \$10,000 / \$50,000$). Therefore, A's foreign source taxable income would be \$7,000 ($\$8,000 - \$1,000$). At a 25% U.S. tax rate, A may only use \$1,750 ($25\% \times \$7,000$) of the \$2,000 of foreign taxes. See section 904.

Taking into account the distributive share of USP's assets, the amount of A's interest expense that reduces passive category foreign source gross income is \$500 ($\$5,000 \times \$10,000 / \$100,000$). Therefore, A's passive category foreign source taxable income would be \$7,500 ($\$8,000 - \500). At a 25% U.S. tax rate, A may use \$1,875 ($25\% \times \$7,500$) of the \$2,000 of foreign taxes—an additional foreign tax credit amount of \$125 after taking into account A's share of the tax book value of the partnership assets.

B does not request a Schedule K-3 from USP for tax year 2022. Under the Domestic Filing Exception, USP did not complete Schedule K-3 for B.

Example 4. The facts are the same as in *Example 3*, except that A has \$5,000 of expenses described in Regulations section 1.861-8(e)(9), and A and USP have no other expenses. Further, A's share of USP's gross income is \$50,000. Not including its distributive share of the income of USP, A's gross income is \$50,000. Of A's gross income, \$5,000 is foreign source gross income and \$45,000 is U.S. source gross income. USP does not have any gross income the source of which is determined by the partner.

A's expenses must be ratably apportioned based on A's gross income (including its distributive share of the income of USP). See Regulations section 1.861-8(c)(3). Therefore, USP provided Schedule K-3, Part II, to A. Before taking into account the distributive share of USP's gross income, the amount of A's expenses described in Regulations section 1.861-8(e)(9) that reduce foreign source gross income is \$500 ($\$5,000 \times \$5,000 / \$50,000$). Therefore, A's foreign source taxable income would be \$4,500 ($\$5,000 - \500). At a 25% U.S. tax rate, A may only use \$1,125 ($25\% \times \$4,500$) of the \$2,000 of foreign taxes. See section 904.

Taking into account the distributive share of USP's gross income, the amount of A's expenses described in Regulations section 1.861-8(e)(9) that reduce foreign source gross income is \$250 ($\$5,000 \times \$5,000 / \$100,000$). Therefore, A's foreign source taxable income would be \$4,750 ($\$5,000 - \250). At a 25% U.S. tax rate, A may use \$1,187.50 ($25\% \times \$4,750$) of the \$2,000 of foreign taxes—an additional foreign tax credit amount of \$62.50 after taking into account A's distributive share of the gross income of USP.

Because A and USP do not have R&E expense or interest expense, and because USP did not pay or accrue any foreign taxes, USP did not provide Schedule K-3, Part III, to A.

Note. A partner may need the distributive share of the partnership's gross income for purposes of allocating and apportioning expenses other than those described in Regulations section 1.861-8(e)(9) and should request this information from the partnership if it is needed and if it has not been provided.

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 re-source such income under an applicable U.S. income tax treaty. See sections 904(d)(6) and 865(h). See the instructions for Forms 1116 and 1118 for income re-sourced by treaty reported as a separate category of income.

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

Exception. If you are a limited partner, you hold less than 10% of the value of the partnership, and you did not hold your interest in the ordinary course of the partner's active trade or business, then any amounts reported on Schedule K-3, Part II, Section 1, and Part III, Section 1, columns (b), (d), and (e); Part III, Section 3, columns (c) and (d); and Part III, Section 5, columns (b), (c), (e), and (f), should be reported as passive category income. Deductions reported on Part II, Section 2, columns (b), (d), and (e), should be reported as reducing passive category income. Similarly, any foreign taxes paid or accrued on foreign source income in Part III, Section 4, columns (b), (c), (e), and (f), should be assigned to passive category income. Regulations section 1.904-4(n)(1)(ii). If you are a limited partner that owns less than 10% of a capital and profits interest in the partnership, Part III, Section 2, was not completed by the partnership. See Regulations section 1.861-9(e)(4).

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. If you are a U.S. citizen or resident, sales and gains reported in this column will generally be U.S. source income and not reported on Form 1116 or 1118 unless you elect to re-source such income under an applicable income

tax treaty. There are certain exceptions, for example, a U.S. citizen or resident with a tax home (as defined in 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 the instructions for Part I, box 1, above. 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.

Section 1, Gross Income Lines 1 Through 24

Form 1118, Schedule A, requires a corporation to separately report certain types of gross income by source and separate category. Schedule K-3, Part II, lines 1 through 23, generally follow the separately reported types of gross income on Schedule A. Individuals must follow the same sourcing rules, but Form 1116 only requires reporting of total gross income from foreign sources by separate category. Therefore, those required to file Form 1116 would report line 24, taking into account section 904(b)(2) and PTEP adjustments, by country on their Form 1116, Part I, line 1a. Because all gross income is reported on one line on the Form 1116, there is no need to specify other reporting lines for gross income below.

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

Note. For Part II, column (f), if the partnership entered the code "XX," it was because it could not determine the country or U.S. possession with respect to which the gross income is sourced because the source is determined by your residence, or if you are a pass-through entity, the residence of the first non-pass-through partner.

The partnership entered for column (f) the foreign country to which the partnership paid tax of at least 10% of the gain. See sections 865(e) and 865(g).

Each gross income item (for example, sales vs. interest income) may have different countries listed on A, B, C, etc., given that the partnership might not have sales income and interest income, for example, from the same country. Line 24 should sum each country's total income reported on Part II, regardless of the line on which such income is reported, whether A, B, C, etc.

Exceptions. The instructions for Forms 1116 and 1118 specify exceptions from the requirement to report gross income by foreign country or U.S. possession with respect to RICs and section 863(b). See the instructions to the Forms 1116 and 1118 for these exceptions that apply.

Note. Schedule K-3 reports gross income by country or U.S. possession because such information is requested on Forms 1116 and 1118. Income and taxes are reported by country on the Forms 1116 and 1118 so that the IRS may, for example, initially evaluate whether taxpayers are claiming credits for compulsory payments to foreign governments.

Line 1. Sales. If you file Form 1118, add the amount reported on this line to your other sales and report the total 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, add the amount reported on this line to your other gross income from performance of services and report the total 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, add the amount reported on this line to your other rental income, royalties, and license fees and report the total on the Form 1118, Schedule A, column 6, by separate category.

Line 5. Guaranteed payments. If you file Form 1118, add the amount reported on this line to your other guaranteed payments and report the total on the Form 1118, Schedule A, column 11, by separate category.

Line 6. Interest income. If you file Form 1118, add the amount reported on this line to your other interest income and report the total on the Form 1118, Schedule A, column 5, by separate category.

Lines 7 and 8. Ordinary dividends and qualified dividends. Some of the amounts reported on these lines may be attributable to PTEP in annual PTEP accounts that you have with respect to a foreign corporation and are therefore excludable from your gross income. If you file Form 1116, do not include the amount attributable to PTEP in your annual accounts in Part I, line 1a. If you file Form 1118, add the amount reported on this line, less the amount attributable to PTEP in your annual PTEP accounts, to your other dividends and report the total on the Form 1118, Schedule A, column 4, by separate category.

See the Instructions for Form 1116 for additional information with respect to rules regarding capital gain rate differentials (as defined in section 904(b)(3)(D)) for qualified dividends.

Lines 11 through 15 and 27 through 30. Capital gains and losses. Section 904(b)(2)(B) contains rules regarding adjustments to account for capital gain rate differentials (as defined in section 904(b)(3)(D)) for any tax year. These rules apply to individuals and may require adjustments to the amounts on lines 11 through 15, which in turn affect 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, add the amounts reported on Schedule K-3, Part II, lines 11 through 15, to other gross income you report on the Form 1118, Schedule A, column 11, by separate category. Add the amounts reported on Schedule K-3, Part II, lines 27 through 30, to other amounts you report on Form 1118, Schedule A, column 13(j); Form 1118, Schedule H, Part II, column (e); or Form 1118, Schedule H, Part III, column (e), as applicable, by separate category.

Line 12. Net long-term capital gain. Line 12 does not include gains reported on lines 13, 14, and 15.

Line 14. Unrecaptured section 1250 gain. If gain is both unrecaptured section 1250 gain and net section 1231 gain, the gain was reported on line 14 and not on line 15, but the partnership included an attachment indicating the amount of unrecaptured section 1250 gain that is also net section 1231 gain.

Line 28. Net long-term capital loss. Line 28 does not include losses reported on line 29.

Lines 16 and 46. Section 986(c) gain and loss. This line reports the partnership's share of a lower-tier pass-through entity's section 986(c) gain or loss, and the amount of section 986(c) gain or loss on distributions of PTEP sourced from the

partnership's annual PTEP accounts. You will need to determine your foreign currency gain or loss under section 986(c) with respect to distributed PTEP sourced from annual PTEP accounts that you have with respect to a foreign corporation, using Part V of the Schedule K-3.

The amount of foreign currency gain and loss that you report on Form 1118 and other forms, for example, Form 1040 or 1120, will include your share of the partnership's foreign currency gain or loss under section 986(c) and your own foreign currency gain or loss under section 986(c). If you file Form 1118, add the amount on Schedule K-3, Part II, line 16, to your other section 986(c) gain and report the total on the Form 1118, Schedule A, column 9, by separate category. Identify the type of gain as section 986(c) gain in Form 1118, Schedule A, column 10. Add the amount reported on Schedule K-3, Part II, line 46, to your other section 986(c) losses and enter the total on the Form 1118, Schedule A, column 13(h); Form 1118, Schedule H, Part II, column (e); or Form 1118, Schedule H, Part III, column (e), as applicable, by separate category. If you entered an amount in Form 1118, Schedule A, column 13(h), enter the type of loss as section 986(c) loss in Form 1118, Schedule A, column 13(i).

Lines 17 and 47. Section 987 gain and loss. If you file Form 1118, add the amount reported on Schedule K-3, Part II, line 17, to your other section 987 gain and enter the total on the Form 1118, Schedule A, column 9, by separate category. Identify the type of gain as section 987 gain in Form 1118, Schedule A, column 10. Add the amount reported on Schedule K-3, Part II, line 47, to your other section 987 loss and enter the total on Form 1118, Schedule A, column 13(h); Form 1118, Schedule H, Part II, column (e); or Form 1118, Schedule H, Part III, column (e), as applicable, by separate category. If you entered an amount in Form 1118, Schedule A, column 13(h), enter the type of loss as section 987 loss in Form 1118, Schedule A, column 13(i).

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, add the amount on Schedule K-3, Part II, line 18, to your other section 988 gain and enter the total on the Form 1118, Schedule A, column 9, by separate category. Identify the type of gain as section 988 gain in Form 1118, Schedule A, column 10. See the instructions for column (f). Add the amount reported on Schedule K-3, Part II, line 48, to your other section 988 loss and enter the total on the Form 1118, Schedule A, column 13(h); Form 1118, Schedule H, Part II, column (e); or Form 1118, Schedule H, Part III, column (e), as applicable, by separate category. If you entered an amount in Form 1118, Schedule A, column 13(h), enter the type of loss as section 988 loss in Form 1118, Schedule A, column 13(i).

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

Line 20. Other income. If you file Form 1118, add the amount reported on this line to your other income and report the total on the Form 1118, Schedule A, column 11, 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 on Form 1116, Part I, line 1a,

taking into account any section 904(b) adjustments for capital gains, as described above for Schedule K-3, Part II, lines 11 through 15 and 27 through 30, or PTEP adjustments, as described above for Schedule K-3, Part II, lines 7, 8, 16, and 46.

If you file Form 1118, add the amounts reported on lines A, B, and C (and additional rows, if applicable) to your other foreign source gross income from those countries, and enter the totals in column 11 of Form 1118, Schedule A, taking into account any PTEP adjustments, as described above for Schedule K-3, Part II, lines 7, 8, 16, and 46.

Section 2, Deductions Lines 25 Through 54

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). Schedule K-3, Part II, 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, add the amount reported on this line to your other expenses allocable to sales income and report the total on the Form 1118, Schedule A, column 13(f), by separate category.

Line 26. Expenses allocable to gross income from performances of services. If you file Form 1118, add the amount reported on this line to your other expenses allocable to gross income from performance of services and report the total on the Form 1118, Schedule A, column 13(g), by separate category.

Lines 31, 37, and 44 through 45. Other deduction. If you file Form 1118, add the amounts reported on these lines to your other deductions and report the total on the Form 1118, Schedule A, column 13(j); Form 1118, Schedule H, Part II, column (e); or Form 1118, Schedule H, Part III, column (e), 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. 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, add the amounts reported on these lines to your other allocable rental, royalty, and licensing expenses (depreciation, depletion, and amortization) and report the total on the Form 1118, Schedule A, column 13(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, add the amounts reported on these lines to your other allocable rental, royalty, and licensing expenses (other than depreciation, depletion, and amortization)

and report the total on the Form 1118, Schedule A, column 13(e), as applicable, by separate category.



If Part I, box 6, is checked, royalty expenses may include amounts for which you are not allowed a deduction under section 267A. See the 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 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, add the amounts reported on these lines to your other interest expense specifically allocable under Regulations sections 1.861-10 and -10T and report the total 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, add the sum of the interest expense included on these lines in Schedules K-3, Part II, column (f), to your other interest expense and report the total 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 these lines in Schedule K-3, Part II, column (f), and report the allocated and apportioned amounts on the applicable separate category Form 1116, Part I, line 4b. Interest expense incurred by certain individuals, estates, and trusts is allocated and apportioned based on the categories of interest expense in sections 163 and 469: active trade or business interest, investment interest, or passive activity interest, adjusted for any interest expense directly allocated under Regulations section 1.861-10T. See Regulations section 1.861-9(e)(3) and Temporary Regulations section 1.861-9T(d)(1) and (3).

Exception. If you are a limited partner, and your ownership, together with ownership by persons that bear a relationship to the partner described in section 267(b) or section 707, of the capital and profits interest of the partnership is less than 10%, your distributive share of the partnership's interest expense reduces passive category foreign source gross income. See Regulations section 1.861-9(e)(4)(i) and Regulations section 1.904-4(n)(1)(ii) for further guidance. If you file Form 1118, report interest expense from such limited partners on the passive category Form 1118, Schedule A, column 13(j), unless the high-taxed income exception of section 904(d)(2)(B)(iii)(II) is applicable. If you file Form 1116, report such interest expense on the passive category Form 1116, Part I, line 4b, unless the high-taxed income exception of section 904(d)(2)(B)(iii)(II) is applicable. However, if your partnership interest is held in the ordinary course of your active trade or business, your share of the partnership's interest expense is apportioned in accordance with your share of gross foreign source income in each separate category and gross U.S. source income from the partnership. Report the interest expense on the appropriate Form 1118 or 1116, as applicable.

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



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

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

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

Note. Foreign taxes that are creditable (even if a partner chooses to deduct such taxes) are not reported as expenses on Part II. Do not claim a foreign tax credit on Form 1116 or 1118 for amounts reported on line 45. However, you may claim a deduction for such taxes on the applicable form, including the Forms 1040 and 1120.

Creditable foreign taxes are reported on Part III, Section 4.

Line 49. Other allocable deductions. If you file Form 1118, add the amounts reported on this line to your other allocable deductions and enter the total on the Form 1118, Schedule A, column 13(j), by separate category.

Line 50. Other apportioned share of deductions. If you file Form 1118, add the amounts reported on this line to your other apportioned share of deductions and report the total on the Form 1118, Schedule H, Part II, column (e); or Form 1118, Schedule H, Part III, column (e), by separate category.

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. 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. Add the amounts reported on line 1 by standard industrial classification (SIC) code to your other gross receipts and report on Form 1118, Schedule H, Part I.

Line 2. Add the amounts reported on line 2 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 with interest expense (including the share of the partnership's interest expense) except certain limited partners with less than a 10% partnership interest. See Regulations section 1.861-9(e)(4)(i). 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, and the face of the Form 1116 does not require further detail with respect to the allocation and apportionment of interest expense, the instructions below do not refer to the Form 1116.

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.

Stewardship expenses. In the case of the partner's stewardship expenses incurred to oversee the partnership, the

partnership's value is determined and characterized under the asset method in Regulations section 1.861-9 (taking into account any adjustments under sections 734(b) and 743(b)). See Regulations section 1.861-8(e)(4)(ii)(C). Therefore, the instructions with respect to Part III, Section 2, generally apply to the partner's stewardship expense.

Line 3. 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. 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. 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. Report the amounts on line 6 on Form 1118, Schedule H, Part II, column (a), lines 2 and 3, as applicable.

Line 6a is the sum of lines 1 and 2 less the sum of lines 3, 4, and 5. Line 6a is divided into the types of assets on lines 6b, 6c, and 6d if you are a partner that is an individual, estate, or trust, or if you are a pass-through entity partner that may have an individual, estate, or trust as a partner.

Example 5. A, a U.S. citizen, owns a 10% interest in USP, domestic partnership. USP is engaged in the active conduct of a U.S. trade or business. USP's business generates only domestic source income. USP separately has an investment portfolio consisting of several less-than-10% stock investments. USP has a bank loan. The proceeds of the bank loan were divided equally between the business and the investment portfolio. A's only business assets and investment assets are its distributive share of those owned by USP. A's only interest expense is that from its distributive share of the USP loan.

A's share of the interest expense for USP's business is \$2,000. It is apportioned on the basis of business assets. Because all business income is domestic source, the business assets are deemed domestic assets and reported on Schedule K-3, Part III, Section 2, column (a), line 6b. A's \$2,000 share of the interest expense is reported on Schedule K-3, Part II, column (f), line 41. It is apportioned to U.S. source gross income by the partner and need not be reported on Form 1116.

The interest expense for A's share of USP's investments is \$2,000 and is reported on Schedule K-3, Part II, column (f), line 42. The investment interest must be apportioned on the basis of investment assets. A's distributive share of the adjusted basis in USP's stock is \$8,000 with respect to the stock generating domestic source income and \$12,000 with respect to the stock generating foreign source passive income. Such amounts are reported on Schedule K-3, Part III, Section 2, line 6c, columns (a) and (c), respectively. \$800 ($\$8,000 / \$20,000 \times \$2,000$) is apportioned to domestic source income and \$1,200 ($\$12,000 / \$20,000 \times \$2,000$) is apportioned to foreign source passive income. The amount apportioned to foreign source passive income is reported on the passive category Form 1116, line 4b.

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 corporate 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, lines 3(a) through 3(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 3(a) through 3(f), as (1) section 245A dividend, or (2) Other.

Section 3. Foreign-Derived Intangible Income (FDII) Deduction Apportionment Factors

Section 3 reports the information necessary for you to assign the FDII deduction to a source and separate category such that it may be reported on Form 1118, Schedule A, or Form 1116, Part I.

Section 4. Foreign Taxes

Section 4 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 those parts, refer to the statement attached to Schedule K-3, referred to earlier in the instructions with respect to Part I, box 4, with the following information.

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

Note. The partner takes its distributive share of the partnership's foreign taxes into account in the partner's tax year with or within which the partnership's tax year ends regardless of whether the partner or partnership takes foreign taxes into account on the cash or accrual basis.

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

Line 3. Report the redetermined foreign taxes reported on line 3 on the Foreign Tax Redetermination Schedule of the Form 1116 or Form 1118, and on an amended return, if required. See

the instructions for Form 1116 or Form 1118 and Regulations sections 1.905-3 through -5 for additional information.

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

Use the information in the attachment provided by the partnership to complete Schedule L (Form 1118), and/or Schedule C (Form 1116), as applicable.

If the partnership checked the “contested tax” box and reported information about a contested foreign income tax on line 3, the partnership has remitted a contested foreign income tax liability to a foreign country, and you as the partner may elect to claim a provisional foreign tax credit for your distributive share of such contested foreign income tax liability. See Regulations section 1.905-1(f)(2). To make the election to claim the provisional foreign tax credit, file Form 7204, Consent To Extend the Time To Assess Tax Related To Contested Foreign Income Taxes—Provisional Foreign Tax Credit Agreement. See the instructions for Forms 1116 or 1118, and the instructions for Form 7204, for additional information.

Section 5. Other Tax Information

Section 5 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.

No credit is allowed for taxes paid or accrued to a country described in section 901(j). However, a deduction is generally allowed with respect to a tax described in section 901(j).

Part IV. Information on Partner's Section 250 Deduction With Respect to Foreign Derived Intangible Income (FDII)

A domestic corporate partner should use this section to calculate the partner's FDII on Form 8993.

Section 1. Information To Determine Deduction Eligible Income (DEI) and Qualified Business Asset Investment (QBAI) on Form 8993.

Lines 1–7. A partner must include the amount reported to it on line 1 in calculating the gross income on line 1 of Form 8993. The partner must also include any amounts that it identifies from lines 3 through 7 of Schedule K-3 that are not attributable to its DEI in lines 2(a) through (f) of Form 8993. Use information on line 2(a)–(c) and in Section 3 to determine the expenses properly allocable to DEI on line 5 of Form 8993.

Example 6. DC is a domestic corporation that owns a 50% interest in a domestic partnership, USP. USP manufactures and sells Product A and provides services solely to U.S. persons. The services give rise to domestic oil and gas extraction income (DOGEI) for purposes of section 250(b)(3)(A)(i)(V). USP has \$200 in gross receipts from sales of Product A, \$100 in cost of goods sold, and \$50 in properly allocated and apportioned deductions (none of which are interest or R&E expenses). USP reports these amounts on Schedule K-2, Part IV, Section 1, lines 2a–2c, respectively, and 50% of these amounts on the same section and lines of the Schedule K-3 that USP issues to DC, because this information is necessary for DC to compute its

deduction eligible income (DEI). The net amount increases DC's DEI, which increases its deemed intangible income (DII) and in turn increases its section 250 deduction for FDII. DC uses these amounts to calculate its gross DEI on Part I, line 4, of Form 8993.

USP has \$100 in gross receipts from services, \$50 in cost of services, and \$25 in properly allocated and apportioned deductions (none of which are interest or R&E expenses). Because the performance of these services results in DOGEI, it does not give rise to DEI, but rather 50% of the net amount (\$25) is reported on Schedule K-3 Part IV, Section 1, Line 6 so that DC can treat this amount as an exclusion from its DEI. DC's DEI is determined without this amount by subtracting the amount from DEI on Part I, line 2e, of Form 8993.

USP owns two properties, Asset C which has an adjusted basis of \$1,000x, and Asset D which has an adjusted basis of \$1,200x. Asset C is used in the production of Product A and Asset D is used in providing the DOGEI services. Because sales of Product A give rise to DEI, 50% or \$500x of the partnership's adjusted basis in Asset C (\$1,000x) is reported to DC on Schedule K-3, Part IV, Section 1, line 8. This increases DC's QBAI, and thereby increases DC's deemed tangible income return (DTIR). The increase to DTIR decreases DC's DII which in turn decreases its section 250 deduction for FDII. DC uses the amount to determine its DTIR from partnerships on Part I, line 7b, of Form 8993.

Note. Some of the amounts reported on these lines related to distributions by foreign corporations may be attributable to PTEP in annual PTEP accounts that a partner has with respect to a foreign corporation and are therefore excludable from the partner's gross income. See sections 959(a) and 959(d).

Line 8. Partnership QBAI. A partner must include the amount reported to it on line 8 of Schedule K-3, Part IV, in calculating the QBAI used to determine deemed tangible income return on line 7b of Form 8993. However, for certain items determined by the partner that affect the amount of a partner's adjusted bases included in its share of partnership specified tangible property, the partner must use and the partnership must provide information that separately distinguishes between the amount of the adjusted bases in a partnership's tangible property that the domestic 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 domestic corporation would not include in its adjusted bases in the partnership specified tangible property.

Section 2. Information To Determine Foreign-Derived Deduction Eligible Income (FDDEI) on Form 8993

Line 9. Gross receipts. A partner must include the amounts reported to it on line 9 of Schedule K-3, Part IV, on line 9(b) of Form 8993. However, the partner must only include the portion of the amounts on lines 9(a) through (c) of Schedule K-3, Part IV, Section 1, that are attributable to its gross DEI on line 4 of Form 8993.

Line 10. COGS. A partner must include the amounts reported to it on line 10 of Schedule K-3, Part IV, on line 10(b) of Form 8993. However, the partner must only include the portion of the amount on line 10 of Schedule K-3, Part IV, Section 1, that is attributable to its gross DEI on line 4 of Form 8993.

Line 11. Allocable deductions. A partner must include the amounts reported to it on line 11 of Schedule K-3, Part IV, on line 13 of Form 8993.

Line 12. Other apportioned deductions. A partner must include the amounts reported to it on line 12 of Schedule K-3, Part IV, on line 17 of Form 8993. However, the partner must only

include the portion of the amount on line 12 of Schedule K-3, Part IV, Section 1, that is attributable to its gross DEI on line 4 of Form 8993.

Section 3. Other Information for Preparation of Form 8993

Interest Expense and Interest Expense Apportionment Factors

This section reports the information that you need to allocate and apportion your interest expenses for FDII purposes.

Lines 13A and 13B. Interest expense specifically allocable under Regulations sections 1.861-10(e) and -10T. Include these amounts on line 5 and/or line 14 of Form 8993.

Line 13C. Other interest expense. Add the Interest expense to your other interest expense.

Exception. Certain corporate partners with a less than 10% interest in a partnership shall directly allocate their distributive shares of the partnership's interest expense to its distributive share of partnership gross income. See Regulations section 1.861-9(e)(4). After apportionment, if necessary, include the appropriate amount of interest expense on line 5 and/or line 14 of Form 8993.

Line 14. Interest expense apportionment factors. Corporate partners will use this section to determine the interest expense reported on lines 5 and 14 of Form 8993.

R&E Expenses and R&E Expenses Apportionment Factors

This section reports the information that you need to allocate and apportion your R&E expense for FDII purposes. R&E expenses are allocated and apportioned by the partner. See Regulations section 1.861-17(f)(1).

Line 15. Gross receipts by SIC code. Add the amounts to the partner's other gross receipts by SIC code.

Line 16. R&E expenses. Add the amounts to the partner's other R&E expenses by SIC code.

Part V. Distributions From Foreign Corporations to Partnership

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

Also use Part V, in combination with other information known to you, to claim and figure a foreign tax credit on Form 1116 or 1118, and, if eligible, to claim and figure a dividends received deduction under section 245A on Form 1120 with respect to distributions that are attributable to non-previously taxed E&P.

Include the U.S. dollar amount of E&P distributions from qualified foreign corporations in determining the amount of qualified dividends you report on line 3a of Form 1040, or the amount of dividends reported on Form 1120. A foreign corporation identified as a qualified foreign corporation in column (j) that is a passive foreign investment company (as defined in section 1297) as to you for the tax year of the foreign corporation in which the distribution was made, or the preceding tax year, is not a qualified foreign corporation, regardless of whether it is indicated as such in column (j). See section 1(h)(11)(C)(iii)(I) and Notice 2004-70, 2004-44 I.R.B. 724.

Include the U.S. dollar amount of E&P distributions from a nonqualified foreign corporation in determining the amount of ordinary dividends you report on line 3b of Form 1040, or Form 1120.

However, do not include the U.S. dollar amount of E&P distributions from a foreign corporation to the extent the distributions are attributable to PTEP in annual PTEP accounts that you have with respect to the foreign corporation, or attributable to E&P that are excludable from your gross income under section 1293(c), in determining the amount of dividends that you report on line 3a or 3b of Form 1040, or Form 1120. See Notice 2019-01, 2019-02 I.R.B. 275.

Include the amount of foreign currency gain or loss that you are required to recognize under section 986(c) in determining the amount to report on Form 1120, or Schedule 1 (Form 1040), line 8 (Other income).

If the partnership received a distribution that is attributable to PTEP in an annual PTEP account of the partnership, or attributable to E&P that are excludable from the partnership's gross income under section 1293(c), that is treated as a dividend for purposes of section 1411 (that is, for purposes of the net investment income tax) and, therefore, may be net investment income (such as PTEP, "NII PTEP"), it will attach a statement to the Schedule K-3 regarding your share of the partnership's NII PTEP. If you are an individual who is a U.S. citizen or resident, or a domestic trust or estate, use the U.S. dollar amounts of NII PTEP reported on the statement, and follow the Instructions for Form 8960 to figure and report your net investment income. Corporate partners are not subject to the net investment income tax. See Regulations sections 1.1411-1 through -10 for details. Note that your share of a distribution received by the partnership that is attributable to PTEP in your annual PTEP accounts, or attributable to E&P that are excludable from your gross income under section 1293(c), may also be treated as a dividend for purposes of section 1411 and, therefore, may be NII PTEP.

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

Part VI. Information on Partner's Section 951(a)(1) and Section 951A Inclusion

Use Part VI to include in gross income the appropriate amount of subpart F income inclusion and/or section 951(a)(1)(B) inclusion, and to complete Form 8992.

If the partnership is a domestic partnership that is treated as owning stock of a foreign corporation for a tax year of the foreign corporation within the meaning of section 958(a) because Regulations section 1.958-1(d)(1) does not apply to such tax year and the domestic partnership does not, pursuant to Regulations section 1.958-1(d)(4)(i), apply Regulations section 1.958-1(d)(1) through (3) to such tax year, and the partnership is a U.S. shareholder of the foreign corporation, then any subpart F income inclusions and section 951(a)(1)(B) inclusions with

respect to the foreign corporation for such tax year are inclusions of the partnership, of which you generally include in gross income a distributive share. In such a case, your share of the partnership's subpart F income inclusions and section 951(a)(1)(B) inclusions is reported on Schedule K-1, line 11, Other income (loss), and are not reported in Schedule K-3, Part VI, columns (e) and (f).

For each CFC listed in column (a) of which you are a U.S. shareholder, include the amounts of subpart F income and section 951(a)(1)(B) inclusion reported on Part VI in determining the amount you report on Form 1120, Schedule C, line 16, or Schedule 1 (Form 1040), line 8 (Other income).

Note that, for corporate partners, in determining the amount you report on Form 1120, Schedule C, line 16, the section 951(a)(1)(B) inclusion amounts reported on Part VI may be reduced under Regulations section 1.956-1(a)(2).

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

Part VII. Information To Complete Form 8621

U.S. persons may be required to complete and file Form 8621 and/or include amounts in income with respect to PFICs owned through a partnership. This includes PFICs with respect to which no qualified electing fund (QEF) or section 1296 MTM election has been made and unpedigreed QEFs (section 1291 funds), as well as PFICs with respect to which a pedigreed QEF, section 1296 MTM, or other election has been, or may be, made. For information regarding the requirement to file Form 8621, as well as certain filing exceptions, see Regulations section 1.1298-1 and the Form 8621 instructions.

Use the information provided in this Schedule K-3, Part VII (including any supplemental attachments (Table 4 or 5, if applicable)), as instructed below, to complete Form 8621 with respect to each PFIC for which you have a filing obligation. Additionally, for any PFIC that you own through your interest in the partnership, use the information provided in this Schedule K-3, Part VII (including any supplemental attachments (Table 4 or 5, if applicable)) to determine your income inclusion with respect to the PFIC (if any) and complete your U.S. federal income tax return.

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

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

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

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

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

Column (j). If the partnership is a domestic partnership, this column will indicate to you (using the codes below) whether the partnership has made an election with respect to the PFIC which binds the partners. If the partnership is a foreign partnership, no code will be entered in this column; however, if certain information with respect to the PFIC is provided, you may be able to make certain elections with respect to the PFIC on Form 8621.

Partnership Election Codes

Codes	Election Type
QEF	Qualified Electing Fund Election
MTM	Section 1296 Mark-to-Market Election

Note. In general, if the partnership is a domestic partnership and has made a pedigreed QEF or section 1296 MTM election with respect to a PFIC, the partnership is not required to complete Schedule K-3, Part VII, with respect to that PFIC if the partnership files Form 8621 for that PFIC. In that case, you may not be required to file Form 8621 with respect to that PFIC and income inclusions with respect to the PFIC, if any, will be figured by the partnership and reported to you on Schedule K-1, Part III. However, if the partnership is a domestic partnership that has made a pedigreed QEF or section 1296 MTM election with respect to a PFIC for which the partnership does not file Form 8621, if the partnership owns stock of an unpedigreed QEF, or if the partnership is making a section 1296 MTM election with respect to stock in a PFIC in the current tax year if the current tax year is not the first year of the partnership's holding period in such stock ("non-initial section 1296 MTM election"), it is required to complete Schedule K-3, Part VII, with that PFIC's information, and you may be required to file Form 8621 with respect to that PFIC. See Regulations section 1.1298-1(b)(2) and the Form 8621 instructions for additional information.

Additionally, if the partnership marks to market stock of a PFIC as described in Regulations section 1.1291-1(c)(4), the partnership generally does not need to report information about the PFIC on Schedules K-2 and K-3, Part VII. In such a case, the partnership should report its MTM gain or loss on Schedule K and report your share of such amounts on Part III of Schedule K-1. Note, however, in such a case there may be instances in which you will need additional information from the partnership to meet your tax obligations with respect to a PFIC for which the partnership has marked to market the stock as described in Regulations section 1.1291-1(c)(4), such as when section 1291 rules apply to you because the stock was not marked by the partnership in the first year of its holding period. In such instances, the partnership should provide you with the needed information and may use Schedule K-3, Part VII, to do so.

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

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

Section 2. Additional Information on PFIC or QEF

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

QEF Information

Columns (c) and (d). This information is to assist you in determining your income inclusions from certain PFICs with respect to which a QEF election has been, or may be, made.

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

Note. If your interest in the partnership constitutes an "applicable partnership interest" within the meaning of section 1061(c) or the regulations thereunder, you may need additional information not reported on this Schedule K-3 from the QEF with respect to its computation of its net capital gain (as defined in Regulations section 1.1293-1(a)(2)) to perform certain computations under section 1061 or the regulations thereunder. The partnership may aid you in obtaining such information from the QEF, though the QEF is not required to provide such information. See section 1061 and Regulations sections 1.1061-4 and 1.1061-6 for more information.

Mark-to-Market Information

Columns (e) and (f). This information is to assist you in determining your gain or loss from certain PFICs with respect to which an MTM election under section 1296 has been, or may be, made (MTM PFIC), including PFICs with respect to which the partnership is making a non-initial section 1296 MTM election.

For any PFIC reported on Schedule K-3, Part VII, enter the amount in column (f) on Form 8621, Part IV, line 10a. 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 Form 8621, Part IV, line 10b, and use the rest of Form 8621, Part IV, lines 10c–12, to determine your MTM gain or loss to include on your U.S. federal income tax return.

If you are required to file Form 8621 for an MTM PFIC owned by a domestic partnership (because, for example, the partnership does not file Form 8621 for that MTM PFIC), enter the amount in column (f) on Form 8621, Part IV, line 10a. You may need additional information from the partnership regarding

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

Additionally, if the partnership is making a non-initial section 1296 MTM election with respect to a PFIC, you should use the information for that PFIC in columns (g) through (o) and the corresponding instructions described below to determine whether you have received an excess distribution with respect to the PFIC stock, or whether your distributive share of the partnership's section 1296(a) gain for the tax year (if any) is treated as an excess distribution. This will help you determine any corresponding additions to tax and interest charges under section 1291. For special rules related to RICs that are shareholders of PFICs with respect to which a non-initial section 1296 MTM election has been made, see Regulations section 1.1296-1(i)(3).

Section 1291 and Other Information

Note. Generally, this information is to assist you in satisfying any information reporting obligations for, and in figuring income inclusions with respect to, section 1291 funds. However, except as otherwise provided, this information may be relevant to PFICs with respect to which a pedigreed QEF election, section 1296 MTM election (including a non-initial section 1296 MTM election), or other election has been made by you or the partnership.

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 of stock in the PFIC during the partnership's tax year, these dates do not need to be entered on Form 8621 or on your U.S. federal income tax return.

Note. The dates entered in this column (g) will be the dates on which the 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, or not reported at all on Form 8621.

Where on Form 8621 To Report Distributions From PFICs

IF you are a shareholder of a...	THEN...
section 1291 fund, PFIC with respect to which a domestic partnership is making a non-initial section 1296 MTM election, or a PFIC that now may be treated as a QIC, and for which you are required to file Form 8621	enter this amount on Form 8621, Part V, line 15a.
QEF for which you are not making a section 1294 election for the current tax year	you do not need to enter this on Form 8621.
QEF for which you are making a section 1294 election for the current tax year	enter this amount on Form 8621, Part III, line 8b.
MTM PFIC (other than a PFIC with respect to which the partnership is making a non-initial section 1296 MTM election)	you do not need to enter this on Form 8621.

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

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

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

Column (j). This information is to help you assess any available foreign tax credit attributable to an excess distribution from a section 1291 fund or PFIC with respect to which the partnership is making a non-initial section 1296 MTM election in which you are a shareholder through your ownership in the partnership. If you are required to file Form 8621 with respect to such a PFIC owned by the partnership, use this amount to determine your foreign tax credit to include on Part V, line 16d. See section 1291(g) for additional information on creditable foreign taxes.

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 VIII to determine your deemed paid foreign tax credit under section 960, including with respect to inclusions under section 1293(f).

Column (k). This information is to help you assess your excess distribution and resulting other income, additional tax, and interest charge with respect to each section 1291 fund in which you are a shareholder through your ownership in the partnership or for a PFIC with respect to which the partnership is making a non-initial section 1296 MTM election. If you are required to file Form 8621 with respect to such a PFIC owned by the partnership, use this amount to determine the amount to include on Part V, line 15b, and use the rest of Form 8621, Part V, lines

15 and 16, to determine the amount of any excess distribution and resulting other income, additional tax, and interest charge to include on your U.S. federal income tax return with respect to the section 1291 fund.

Note. The information in column (k) is only relevant with respect to section 1291 funds and PFICs with respect to which the partnership is making a non-initial section 1296 MTM election and is not relevant for any PFIC with respect to which a pedigreed QEF election or other section 1296 MTM election has been, or may be, made.

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

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

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

For each section 1291 fund in which you are a shareholder through your ownership in the partnership or for any PFIC with respect to which the partnership is making a non-initial section 1296 MTM election for which you are required to file Form 8621, enter the amount in column (o) on Form 8621, Part V, line 15f, and use the rest of Form 8621, Part V, line 16, to determine the amount of any resulting other income, additional tax, and interest charge to include on your U.S. federal income tax return with respect to the PFIC. Your adjusted tax basis in the PFIC shares as reported by the partnership should reflect any adjustments in the partnership's shares in the PFIC that are specific to you; you may also need to make corresponding adjustments to your basis in your partnership interest.

For each MTM PFIC (including a PFIC with respect to which a domestic partnership is making a non-initial section 1296 MTM election) 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. Complete the rest of Form 8621, Part IV, lines 13 and 14, to determine your MTM gain or loss to include on your U.S. federal income tax return. 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 PFIC shares held by foreign partnerships with respect to section 1296 income inclusions and deductions.

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

Note. If you have made a QEF 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

Example, Domestic Corporate Partner's Form 1118, Schedule C

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

interest may need to be similarly adjusted. See section 1293(d) for more information on basis adjustments with respect to QEFs.

Part VIII. Partner's Share of Partnership's Interest in Foreign Corporation Income (Section 960)

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

In general, for purposes of the foreign tax credit, 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 QEF inclusions from 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). This is completed on Schedule Q (Form 5471). 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 VIII.

Schedule K-3, Part VIII, reports your share of the CFC's net income in each income group in functional currency. A domestic corporate partner (or an individual, estate, or trust electing under section 962) will report in functional currency its share of the net income in the subpart F income groups by CFC in column 8(a) of Form 1118, Schedule C (see section 960(a)). The partner uses information from Schedule K-3, Part VIII, to complete column 5 of Form 1118, Schedule C.

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

The partnership will attach a Schedule Q (Form 5471) for each CFC to each Schedule K-3. The partner will use each Schedule Q (Form 5471) to determine the total net income in the subpart F income groups of the CFC to report in column 6 of Form 1118, Schedule C, and the total current year taxes by subpart F income groups of the CFC to report in column 7 of Form 1118, Schedule C. This will allow the partner to figure the taxes deemed paid with respect to section 951(a)(1) inclusions by subpart F income group on Form 1118, Schedule C. Similarly, the partner will use Form 5471, Schedule Q, to determine the total tested taxes in each tested income group to

determine the pro rata share of tested foreign income taxes to report on Form 1118, Schedule D, column 8.

Example. In Year 1, USP, a domestic partnership, has two domestic corporate partners with equal interests in the partnership. USP wholly owns CFC. CFC earns passive category interest income of 100u sourced from Country X and pays a withholding tax of \$20 to a foreign country. USP completes Form 5471, including Schedule Q (Form 5471), for CFC. The code for Country X is "X." On Form 5471, Schedule Q, USP reports the following.

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

A PAS			
B i			
	(i)	(xvi)	(xii)
1			
a(1) CFC	X	100u	\$20

On Schedule K-3, Part VIII, USP reports the following to each of its partners.

Example, USP's Schedule K-3, Part VIII, for Partners

B PAS		
C i		
	(i)	(ii)
1		
a(1) CFC	X	50u

On Form 1118, Schedule C, with respect to the passive category, each domestic corporate partner reports with respect to the information received on Schedule K-3 (including the attached Form 5471, Schedule Q) as shown in [Example, Domestic Corporate Partner's Form 1118, Schedule C](#) above.

Note. If a partnership reported information with respect to a PFIC on this Part VIII, it may have attached a statement that includes all of the information on Schedule Q (Form 5471), with respect to the PFIC. See section 1293(f) with respect to QEF inclusions from a PFIC.

Part IX. Partner's Information for Base Erosion and Anti-Abuse Tax (Section 59A)

If you are a corporate partner of a partnership, use this part from the partnership to determine your 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 3% of their total deductions or higher (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 991 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 resulting from 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 Form 8991, Part I.

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 11 of Form 8991, Schedule A.

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 Form 8991, Schedule A.

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

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 Form 8991, Schedule A.

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 Form 8991, Schedule A.

Line 11. Interest expense. If you are a foreign corporate partner, the partnership has completed Worksheet A 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 amount in line 11 is to be included on line 6 of Form 8991, Schedule A, columns (a) (1), (a)(2), (b)(1), and (b)(2).

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 Form 8991, Schedule A, columns (a)(1), (a)(2), (b)(1), and (b) (2).

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 Form 8991, Schedule A.

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)			

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 Form 8991, Schedule A.

Line 14a. Nonqualified derivative payments. The amounts on this line are reported on line 9 on Form 8991, Schedule A.

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 9b of Form 8991, Schedule A. 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 Form 8991, Schedule A.

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 Form 8991, Schedule A.

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

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. The amount on line 18(c) is included on line 14 of Form 8991, Schedule A.

For more information regarding this computation, see the *Instructions for Worksheet for Schedule A, Line 14, Columns (a-2) and (b-2)* in the Instructions for 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.

Part X. 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 income to determine if you have a U.S. tax obligation for the applicable tax year. You may be required to figure your U.S. income tax liability and file U.S. income tax returns and forms (for example, Form 1120-F, Form 1040-NR, and other applicable forms).

Section 1. Gross Income

The partnership uses Part X to report your distributive 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 X 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 on each line, see *Income (Loss) under Part III* in the Partner's Instructions for Schedule K-1 (Form 1065).

Column (a). Total. This is your distributive 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. If you determine the income is U.S. source, the statement attached to the Schedule K-3 will advise reporting the income as either ECI, FDAP, or other. If you determine the income is foreign source, the statement will advise whether the income should be reported as ECI.

Columns (c) and (d). Effectively connected income. Nonresident aliens.

Lines 1 through 5. Report ECI on lines 1 through 5 on Schedule E (Form 1040), attaching it to your tax return. See *Income (Loss) under Part III* in 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 on line 6 (Interest income) on line 2b of your Form 1040-NR.

Line 7. Dividends. Report amounts of ECI listed on line 7 (Dividends) on line 3a or 3b of your Form 1040-NR.

Line 9. Royalties. Report amounts of ECI listed on line 8 (Royalties) on line 4 of Schedule E (Form 1040).

Lines 10 through 14. Report amounts of ECI listed on 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 *Income (Loss) under Part III* in the Partner's Instructions for Schedule K-1 (Form 1065), and the instructions for Form 1040-NR, line 7, for more information on how to report this income.

Line 11. Net long-term capital gain. Line 11 does not include gains reported on lines 12, 13, and 14.

Line 14. Net section 1231 gain. Line 14 does not include net section 1231 gain that is also unrecaptured section 1250 gain. Such gain is reported on line 13.

Foreign corporations. Foreign corporations should report ECI on Schedule P (Form 1120-F), in accordance with the instructions.

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



Do not report income listed in column (d) 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.

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

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

Foreign corporations. Generally, amounts of U.S. source non-ECI from column (e) 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. See Pub. 519 or the Instructions for Form 1120-F for more information on when U.S. source income is ECI.

Column (f). 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 23c of Form 1040-NR and Form 1120-F, page 3, Section I, line 9, as applicable.

Section 2. Deductions, Losses, and Net Income

In figuring a foreign corporation's or nonresident alien's ECI, deductions are allowed only if they are allocated and apportioned to 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 (Form 1120-F). See also Schedule I (Form 1120-F). 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 Schedule H (Form 1120-F). 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 Schedule H (Form 1120-F), 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 Schedule H (Form 1120-F), 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 Schedule H (Form 1120-F), 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 Schedule H (Form 1120-F), Part II, line 16. See Regulations section 1.861-17(f).

Line 7. Interest expense on U.S.-booked liabilities. A foreign corporate partner generally 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 Schedule P (Form 1120-F), line 8. Then, the total interest expense on U.S.-booked liabilities from Schedule P (Form 1120-F) line 8 (including the amount from Schedule K-3, Part X, Section 2, line 7, column (b)) will be entered on Schedule I (Form 1120-F), line 9, column (b).

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 12. Net long-term capital loss. Line 12 does not include losses reported on line 13.

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 the 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 Schedule H (Form 1120-F), Part III.

Line 1a. Gross ECI. Add the amount reported on this line to other amounts you report on Schedule H (Form 1120-F), Part III, line 21a.

Line 1b. Worldwide gross income. Add the amount reported on this line to other amounts you report on Schedule H (Form 1120-F), Part III, line 21b.

Line 2a. 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 on Schedule H (Form 1120-F), Part III, line 24, and attach a statement.

Line 3a. Average U.S.-booked liabilities of the partnership. These amounts may be reported by the foreign partner on Schedule P (Form 1120-F), line 11; and Schedule I (Form 1120-F), line 8, column (b). As indicated in the instructions for Part X, Section 2, line 7, the interest expense on U.S.-booked liabilities as defined in Regulations section 1.882-5(d)(2)(vii) should generally be reported by the foreign partner on

Schedule P (Form 1120-F), line 8; and Schedule I (Form 1120-F), line 9, column (b).

Line 3b. Directly allocated partnership indebtedness.

These amounts may be reported by the foreign partner on Schedule P (Form 1120-F), line 10a. The interest expense on indebtedness described in Regulations section 1.882-5(a)(1)(ii) (B) should generally be reported by the foreign partner on Schedule P (Form 1120-F), line 7; and Schedule I (Form 1120-F), line 22.

Line 4a. Add the amount reported on this line to other amounts you report on Schedule H (Form 1120-F), Part III, line 23a.

Line 4b. Worldwide personnel. Add the amount reported on this line to other amounts you report on Schedule H (Form 1120-F), Part III, line 23b.

Line 5. If you have R&E expense, use the appropriate information from this line.

Lines 7 and 8. Check the "Yes" box on line 24 or 25 of Schedule H (Form 1120-F), 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. Reserved for Future Use

Part XI. Section 871(m) Covered Partnerships

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 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.

This part will be provided if the partnership is a PTP that (1) is a covered partnership as defined in Regulations section 1.871-15(m)(1) (a "covered partnership"), or (2) directly or indirectly holds an interest in a lower-tier partnership that is a covered partnership. The information in this part 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.

Part XII. Reserved for Future Use

Part XIII. 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). Any foreign person, any domestic partnership that has a foreign person as a direct partner, and any domestic partnership that has actual knowledge that a foreign person indirectly holds, through one or more partnerships, an interest in the domestic partnership 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. The information regarding the transfer must include the type of interest transferred, such as capital, preferred, profits, and other. In addition, if there are different classes of the same type of interest, specify the class of the type of interest transferred. 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 Internal Revenue 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 XIII, 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 XIII, lines 2 and 3. The foreign transferor only includes in income the lower of the outside amount and the deemed sale effectively connected amount. 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, 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.