

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

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

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

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### Future Developments

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

## General Instructions

The Shareholder's Instructions for Schedule K-1 (Form 1120-S) generally apply to the Schedule K-3, including instructions under *Inconsistent Treatment of Items* and *Errors*. These instructions provide additional instructions with respect to Schedule K-3 for tax years beginning in 2024.

### Purpose of Schedule K-3

Schedule K-3 (Form 1120-S) is an extension of Schedule K-1 (Form 1120-S) and is generally used to report to shareholders their share of the items reported on Schedule K-2. 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.

See the *Purpose of Schedule K-1*, *Inconsistent Treatment of Items*, and *Errors* sections of the instructions for the

Schedule K-1 (Form 1120-S) for instructions that are equally applicable with respect to the Schedule K-3. The S corporation reported items based on the information known to it, and the actual treatment of the items with respect to the shareholder may differ if any assumptions made by the S corporation are incorrect (such as ownership threshold levels and relatedness determinations). In such cases, the shareholder must treat the items according to the shareholder's actual facts and, if appropriate, file a Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), to identify and explain the inconsistency.

**S corporations with no or limited foreign activity.** An S corporation with no foreign source income, no assets generating foreign source income, and no foreign taxes paid or accrued may be reporting information to you on Schedule K-3. For example, if you claim a credit for foreign taxes paid and/or accrued separately from your S corporation interest, you may need certain information from the S corporation to complete Form 1116, Foreign Tax Credit (Individual, Estate, or Trust).

### 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 other shareholders such as Form 1041, U.S. Income Tax Return for Estates and Trusts.

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

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

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

**Part III.** Used to determine the allocation and apportionment of research and experimental (R&E) expense and interest expense for purposes of the foreign tax credit limitation. Also use this part to determine your share of the S corporation's creditable foreign taxes paid or accrued. Shareholders will use the information to figure a foreign tax credit on Form 1116.

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

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

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

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

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## Specific Instructions

### Identifying Information

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

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

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

**Box 1. Gain on personal property sale.** In general, income from the sale of personal property is sourced according to the residence of the seller; see section 865. For purposes of section 904, if the S corporation sells non-depreciable personal property (other than inventory and certain intangible property), you, the shareholder, are treated as the seller. Therefore, you will need to determine the source of the gain reported in 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 (as defined in 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 section 865(e)(1) and 865(h) for other sourcing provisions for which the information provided in box 1 may be helpful.

If the S corporation checked box 1 in Part I, use the information attached to Schedule K-3 to determine if a

foreign country imposed a tax of at least 10% or more on the gain from each sale. If so, and you have a tax home in a foreign country, such gain is foreign source income and reported on Form 1116. For more information, see [Column \(f\). Sourced by shareholder](#), later.

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

**Box 3. Splitter arrangements.** Foreign taxes with respect to a foreign tax credit splitting event are suspended until the related income is taken into account by the taxpayer; see section 909. There is a foreign tax credit splitting event with respect to foreign taxes of a payor if in connection with a splitter arrangement (as defined in Regulations section 1.909-2(b)) the related income was, 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 an S corporation into account pursuant to section 1373(a).

If the S corporation checked box 3 in Part I, it attached a statement that separately identifies any arrangement, along with your share of the taxes paid or accrued in connection with the arrangement in which the S corporation participates that would qualify as a splitter arrangement under section 909. The box should be checked only if the S corporation knows, or has reason to know, that an entity that took into account related income from the arrangement is a covered person with respect to one or more shareholders. For example, you are a payor of a foreign tax if you take into account the foreign taxes paid or accrued by the S corporation under section 1366(a)(1)(A). For example, if the S corporation wholly owns a reverse hybrid (as defined in Regulations section 1.909-2(b)(1)(iv)) and you own 10% or more (determined by vote or value) of the interest in the S corporation, the reverse hybrid is a covered person with respect to you. You cannot credit the foreign taxes paid or accrued by the S corporation with respect to the reverse hybrid until you or the S corporation takes into account the related income of the reverse hybrid. Until then, the taxes are suspended. The S corporation reported your share of the potentially suspended taxes as a result of the application of section 909 on Part III, Section 3, line 2E. Include on Form 1116, Part III, line 12, taxes suspended under section 909. If you are required to complete Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, for a controlled foreign corporation (CFC), include in Schedule E (Form 5471), Income, War Profits, and Excess Profits Taxes Paid or Accrued, Schedule E-1, line 3b, column (d), taxes suspended under section 909.

If the S corporation checked box 3, and the statement indicates that the S corporation took into account the related income from the splitter arrangement, the taxes are partially or fully unsuspended depending on the amount of related

income taken into account. Even though the taxes are unsuspended, in certain cases you might not be eligible to claim a credit for those taxes. To the extent you are eligible to claim a credit for unsuspended taxes, these amounts may be claimed on Form 1118 or 1116, as applicable. If you are required to complete Form 5471, for a CFC, report the unsuspended taxes in Schedule E (Form 5471), Schedule E-1, line 3a, column (d).

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



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

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

**Box 5. High-taxed income.** If the S corporation checked box 5, you must determine if the passive income reported to you by the S corporation is treated as income in another separate category. Income received or accrued by a U.S. person that would otherwise be passive income is not treated as passive income if the income is determined to be high-taxed income; see section 904(d)(2)(B)(iii)(II). You must group your shares of passive income from an S corporation according to the rules in Regulations section 1.904-4(c)(3). However, the portion, if any, of the share of income attributable to income earned by an S corporation through a foreign qualified business unit (QBU) is separately grouped under the rules of Regulations section 1.904-4(c)(4); see Regulations section 1.904-4(c)(5)(ii). The S corporation should have attached Attachment(s) 1 and/or 2. Use the attachment(s) and your taxes on your other passive income (that is, passive income that is not attributable to your share of the S corporation's income) to determine if you need to assign passive income and the associated taxes to another separate category of income. You must allocate and apportion the shareholder's expenses to this passive income to determine if the income is treated as income in another separate category. This includes both your share of S corporation expenses and expenses incurred by you directly. See the Instructions for Form 1116 for how to report your income and taxes reclassified under the high-taxed income rule.

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



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

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

**Boxes 7 through 9.** If applicable, the S corporation should have attached to the Schedule K-1 or Schedule K-3 the relevant portions of Form 5471; Form 5713, International Boycott Report; and other relevant international tax forms.

With respect to Form(s) 8858, Information Return of U.S. Persons With Respect to Foreign Disregarded Entities (FDEs) and Foreign Branches (FBs); and/or 8621, the S corporation checked box(es) 7 and/or 9, respectively, if the S corporation attached the Form(s) 8858 and/or 8621 to the Form 1120-S. If you need information from the Form(s) 8858 and/or 8621, request such information from the S corporation.

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



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

**Box 11. Entity treatment for certain S corporations.** If this box is checked, the S corporation has made an election under Proposed Regulations section 1.958-1(e)(2), to be treated as owning stock of a CFC within the meaning of section 958(a), and, therefore, the S corporation may have an income inclusion under sections 951(a) and 951A that it reports on Schedule K-1, line 10, Other income (loss), and does not report in Schedule K-3, Part V.

**Box 12. Form 8865 information.** This box alerts you that the S corporation attached Form(s) 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, to the Form 1120-S. The S corporation is not required to attach a copy of the form to your Schedule K-3.

**Box 13. Other international items.** If the S corporation has transactions, income, deductions, payments, or anything else that implicates the international tax provisions of the Internal Revenue Code and such items are not otherwise reported in this part or other parts of Schedules K-2 and K-3, the S corporation reported that information on an attachment and checked box 13.

## Parts II and III

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

Foreign Tax Credit for Individuals, for a summary of the rules for determining the source and separate categories of income.

**S corporation with limited or no foreign activity.** In many instances, an S corporation with 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 S corporation in Schedule K-3, Parts II and III, to complete Form 1116. This information should have been reported to you in prior years, including before the Tax Cuts and Jobs Act, with or attached to the Schedules K-1, and is information you need to figure 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 S corporation was eligible for an exception. See *Domestic Filing Exception* in the Instructions for Schedules K-2 and K-3 (Form 1120-S). Also, if you (or, if you are a pass-through trust, your beneficiary), are eligible to claim a foreign tax credit, you did not need Schedule K-3, Parts II and III, if you or your beneficiaries are not required to complete Form 1116. This could be the case, for example, because you (or if you are a pass-through trust, your beneficiary) qualify for an exception to filing Form 1116. See section 904(j) and *Form 1116 Exemption* in the Instructions for Schedules K-2 and K-3 (Form 1120-S). However, see reasons below for requesting the Schedule K-3 when you are required to file Form 1116.

**Example 1. Domestic filing exception met—Issuance of Schedule K-3 not required.** A married couple, U.S. citizens, each own a 50% interest in SC, an S corporation. SC invests in a regulated investment company. SC receives a Form 1099 from the regulated investment company reporting \$100 of creditable foreign taxes paid or accrued on passive category foreign source income. SC does not have any foreign activity aside from that of the regulated investment company. SC notifies the couple on an attachment to the Schedule K-1 that they will not receive the Schedule K-3 unless they so request. The married couple does not request Schedule K-3 from SC for tax year 2024. Because SC qualified for the domestic filing exception, SC did not complete Schedule K-3 for the couple.

**Reasons to request Schedule K-3 from S corporations 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 S corporation completed the Schedule K-3, Parts II and III, because the S corporation's gross income, gross receipts, expenses, assets, and foreign taxes paid may affect the foreign tax credit available to the shareholder. The source of certain gross income is determined by the shareholder. In addition, some expenses of the S corporation are allocated and apportioned by the shareholder.

Because of this shareholder determination, it is not possible for the shareholder to assume that all income of the S corporation is U.S. source and all expenses of the S corporation reduce U.S. source income. Also, the allocation and apportionment of certain shareholder expenses take into account shares of assets and income of the S corporation that are not otherwise reported on the Schedule K-1.

For example, for sourcing purposes, personal property sold by the S corporation is treated as sold by the shareholders; see section 865(i)(5) and section 1373(a). 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 shareholder is a pass-through entity, the S corporation might not know the ultimate residence of the first non-pass-through shareholder. The share of the S corporation's gain on the sale of personal property is not separately stated on Schedule K-1, but is reported in Schedule K-3, Part II.

As another example, the shareholder's R&E expense (which includes the share of the S corporation's R&E expense) is allocated and apportioned by the shareholder; see Regulations section 1.861-17(f). R&E expense is allocated and apportioned based on the gross receipts by Standard Industrial Classification (SIC) code. The share of the R&E expense by SIC code is not separately stated on Schedule K-1, but is reported in Schedule K-3, Part II. Also, the shareholder needs Schedule K-3, Part III, Section 1, for the shareholder's share of the S corporation's gross receipts by SIC code for purposes of allocating and apportioning R&E expense.

In some cases, the shareholder will be able to use the information reported in Parts II and III to increase the foreign tax credit limitation, and the amount of available foreign tax credit to the shareholder. For example, Schedule K-3, Part III, Section 2, provides the shareholder with the tax book value of the assets of the S corporation. In general, a shareholder 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 the shareholder's share of the S corporation's interest expense and assets; see section 864(e)(2) and Regulations section 1.861-9(e). Taking into account the assets of an S corporation 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 shareholder's foreign tax credit limitation, and the ability of the shareholder to claim foreign tax credits. Schedule K-1 does not separately state the share of the S corporation's interest expense, or the tax book value of the assets. See Regulations section 1.861-9(e). See the instructions for Part II, Section 2, lines 39 through 43; and Part III, Section 2, for further guidance.

**Example 2. Parts II and III required for S corporation with no foreign activity.** U.S. citizens A and B own equal interests in SC, an S corporation. SC 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 SC 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 2024.

Because A must complete Form 1116 to claim a foreign tax credit, A requests a Schedule K-3 by the 1-month date, and therefore the domestic filing exception does not apply to SC with respect to A. SC provided Parts II and III of Schedule K-3 to A. In Schedule K-3, Part III, Section 2, column (a), A's share of the tax book value of SC's assets is \$50,000. Not including A's share of the assets of SC, the tax book value of A's assets is \$50,000. Of A's assets, \$10,000 generates passive category foreign source income and \$40,000 generates 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 SC's assets are characterized in the same category under sections 163 and 469 for purposes of Temporary 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 share of SC'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 share of SC'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 S corporation assets.

B does not request a Schedule K-3 from SC for tax year 2024. Under the domestic filing exception, SC did not complete Schedule K-3 for B.

**Example 3. Part II, not Part III, required for S corporation with no foreign activity.** The facts are the same as in Example 2 except that A has \$5,000 of expenses described in Regulations section 1.861-8(e)(9), and A and SC have no other expenses. Further, A's share of SC's gross income is \$50,000. Not including A's share of the income of SC, A's gross income is \$50,000. Of A's gross income, \$5,000 is passive category foreign source gross income and \$45,000 is U.S. source gross income. SC does not have any gross income the source of which is determined by the shareholder.

A's expenses must be ratably apportioned based on A's gross income (including A's share of the income of SC); see Regulations section 1.861-8(c)(3). Therefore, SC provided Schedule K-3, Part II, to A. Before taking into account the share of SC'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 share of SC'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 share of the gross income of SC.

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

**Note.** A shareholder may need the share of the S corporation's gross income for purposes of allocating and

apportioning expenses other than those described in Regulations section 1.861-8(e)(9).

## Part II. Foreign Tax Credit Limitation

**Column (a). U.S. source.** Do not report amounts in this column on Form 1116 or 1118 unless you elect to resource such income under an applicable U.S. income tax treaty. See section 904(d)(6) and section 865(h). See the instructions for Forms 1116 and 1118 for income resourced by treaty reported as a separate category of income.

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

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

### Section 1—Gross Income

**Lines 1 through 24.** Form 1118, Schedule A, requires a corporation to separately report certain types of gross income by source and separate category. Schedule K-3, Part II, lines 1 through 23, generally follow the separately reported types of gross income on Schedule A. Individuals must follow the same sourcing rules, but Form 1116 only requires reporting of total gross income from foreign sources by separate category. Therefore, those required to file Form 1116 would report the amount from Schedule K-3, Part II, 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. territory with respect to which the gross income is sourced. Lines 1 through 24 report for each gross income item, on a separate line (A, B, or C), the two-letter code (from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes)) for the foreign country or U.S. territory within which the gross income is sourced. If a type of income is sourced from more than three countries, a statement is attached to expand Schedules K-2 and K-3, Part II, for that type of income to report the additional countries.

**Note.** For Part II, column (f), the S corporation entered the code XX because it could not determine the country or U.S. territory with respect to which the gross income is sourced because the source is determined by your residence, or if you

are a pass-through trust, the residence of the beneficiary of the trust.

The S corporation entered in column (f) the foreign country to which the S corporation 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 rows A, B, C, etc., given that the S corporation might not have sales income and interest income, for example, from the same country. Line 24 should sum each country's total income reported in 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. territory with respect to regulated investment companies and section 863(b). See the instructions for Forms 1116 and 1118 for these exceptions that apply.

Schedule K-3 reports gross income by country or U.S. territory 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.

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

**Lines 11 through 15 and 27 through 30. Capital gains and losses.** Section 904(b)(2)(B) contains rules regarding adjustments to account for capital gain rate differentials (as defined in section 904(b)(3)(D)) for any tax year. These rules apply to individuals and may require adjustments to the amounts on lines 11 through 15, which in turn affects the total amount on line 24. See the Instructions for Form 1116 for additional information. Report Schedule K-3, Part II, lines 27 through 30, on Form 1116, Part I, line 5, 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 S corporation included an attachment indicating the amount of unrecaptured section 1250 gain that is also net section 1231 gain.

**Lines 16 and 46. Section 986(c) gain and loss.** These lines report the S corporation's share of a lower-tier pass-through entity's section 986(c) gain or loss, and the amount of section 986(c) gain or loss on distributions of PTEP sourced from the S corporation's annual PTEP accounts. You will need to determine your foreign currency gain or loss under section 986(c) with respect to distributed PTEP sourced from annual PTEP accounts that you have with respect to a foreign corporation, using Schedule K-3, Part IV.

The amount of foreign currency gain and loss that you report on Form 1040 will include your share of the S

corporation's foreign currency gain or loss under section 986(c) and your own foreign currency gain or loss under section 986(c).

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

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

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

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

## Section 2—Deductions

**Lines 25 through 54.** Form 1116 requires a taxpayer to separately report certain types of deductions and losses by source and separate category. Separate reporting is required because each type of deduction may be allocated and apportioned according to a different methodology; see Regulations sections 1.861-8 through -20. For purposes of allocating and apportioning expenses, in general, a shareholder adds their share of the S corporation's deductions with other deductions incurred directly by the shareholder or through other pass-through entities. See Regulations section 1.861-8(e)(15). Individuals must generally follow the same expense allocation and apportionment rules, but Form 1116 only requires separate reporting of certain deductions. See Form 1116, Part I, lines 2 through 5.

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

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

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

**Lines 39 and 40. Interest expense specifically allocable under Regulations sections 1.861-10 and -10T.** Report

interest expense directly allocated under Regulations section 1.861-10 and Temporary Regulations section 1.861-10T on Form 1116, Part I, line 2.

**Lines 41 through 43. Other interest expense.** On Form 1116, allocate and apportion the sum of the interest expense included on lines 41 through 43 in column (f) and report the allocated and apportioned amounts on the applicable separate category Form 1116, Part I, line 4b. Interest expense incurred by certain individuals, estates, and trusts is allocated and apportioned based on the categories of interest expense in sections 163 and 469: active trade or business interest, investment interest, or passive activity interest, adjusted for any interest expense directly allocated under Temporary 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.** See Regulations section 1.861-9(e)(8) and (9) for special rules concerning downstream and upstream S corporation loans that require a matching of related interest income to interest expense allocations.

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

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

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

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

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

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

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

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

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

### Section 2—Interest Expense Apportionment Factors

This section includes the information you need to allocate and apportion your interest expense for foreign tax credit limitation purposes. Use this Section 2 to determine the

interest expense reported on Form 1116, Part I, line 4b. See the Instructions for Form 1116. Because the interest expense is reported on one line on the Form 1116, there is no need to specify additional reporting on the lines below.

**Stewardship expenses.** In the case of the shareholder's stewardship expenses incurred to oversee the S corporation, the S corporation's value is determined and characterized under the asset method in Regulations section 1.861-9. See Regulations section 1.861-8(e)(4)(ii)(C). Therefore, the reporting in Part III, Section 2, generally applies to the shareholder's stewardship expense apportionment.

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.

**Example 4. Parts II and III. Asset method apportionment of interest expense.** A, a U.S. citizen, owns a 10% interest in SC, an S corporation. SC is engaged in the active conduct of a U.S. trade or business. SC's business generates only domestic source income. SC separately has an investment portfolio consisting of several less-than-10% stock investments. SC 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 A's share of those owned by SC. A's only interest expense is that from A's pro rata share of the SC loan.

A's share of the interest expense for SC'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 domestic assets and reported in Schedule K-3, Part III, Section 2, line 6b, column (a). A's \$2,000 share of the interest expense is reported in Schedule K-3, Part II, line 41, column (f). It is apportioned to U.S. source gross income by the shareholder, and doesn't need to be reported on Form 1116.

The interest expense for A's share of SC's investments is \$2,000 and is reported in Schedule K-3, Part II, line 42, column (f). The investment interest must be apportioned on the basis of investment assets. A's share of the adjusted basis in SC'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 in 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 S corporation in certain foreign corporations.

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

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

### Section 3—Foreign Taxes

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

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

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

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).

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

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

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

Use the information in the attachment provided by the S corporation to complete Schedule C (Form 1116), Foreign Tax Redeterminations.

If the S corporation checked the "Contested tax" box and reported information about the contested tax on line 3, the S corporation has remitted a contested foreign income tax liability to a foreign country, and you as the shareholder may elect to claim a provisional foreign tax credit for your pro rata 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 Form 1116 or Form 1118, and the Instructions for Form 7204, for additional information.

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

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

Use Part IV to determine your share of distributions by foreign corporations to the S corporation (with your share being reported in this Part IV) that are attributable to PTEP in your annual PTEP accounts with respect to the foreign corporations (which you exclude from your gross income) or non-previously taxed E&P, and the amount of foreign currency gain or loss on distributed PTEP that you are required to recognize under section 986(c). The amount of foreign currency gain or loss on distributed PTEP that you are required to recognize under section 986(c) is equal to the excess of the U.S. dollar amount of the PTEP over your U.S. dollar basis in the PTEP. If the distributed PTEP was

maintained in a functional currency other than the U.S. dollar, the U.S. dollar amount of the distributed PTEP is determined by translating the distributed PTEP into U.S. dollars using the spot rate on the date that the PTEP was distributed; see section 989(b)(1). Your U.S. dollar basis in the distributed PTEP is generally equal to the U.S. dollar amount of E&P that you previously included in gross income; see section 989(b)(1) and (3).

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

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

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

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

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

**Note.** The S corporation may have annual PTEP accounts under section 959 with respect to the foreign corporation or may have earnings with respect to the foreign corporation that, when distributed, can be excluded from the S corporation's income under section 1293(c) for amounts included in income by the S corporation under section 951(a) or section 1293(a), respectively. In such a case:

1. If the distributing foreign corporation is a PFIC and is not a CFC with respect to which you or any other direct or indirect shareholder of the S corporation is a U.S. shareholder (as defined in section 951(b)), the S corporation may exclude your share of any distribution from the foreign corporation on your Schedule K-3, Part IV, to the extent such distribution constitutes a distribution excludable from the S corporation's gross income under section 1293(c).

2. If the distributing foreign corporation is a CFC with respect to which the S corporation has PTEP for amounts it included in income under section 951(a) (only to the extent such PTEP relates to tax years of the CFC either (i) beginning before January 25, 2022, or (ii) with respect to which the S corporation and/or its shareholders elected under Proposed Regulations section 1.958-1(e)(2) to be treated as owning stock of the CFC within the meaning of section 958(a)), the S corporation may exclude your share of any distribution from the foreign corporation on your Schedule K-3, Part IV, to the extent such distribution is attributable to PTEP under section 959.



3. If the distributing foreign corporation is both a CFC and a PFIC, and the S corporation has no PTEP for amounts included in income under section 951(a) that can be excluded from the S corporation's gross income under section 959 when distributed, the S corporation will report your share of the entire distribution on your Schedule K-3, Part IV, and will provide you with information on any amounts that may be excluded from the S corporation's gross income under section 1293(c), if applicable.

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

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

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

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

If the S corporation has made an election to be treated as owning stock of a foreign corporation within the meaning of section 958(a) under Proposed Regulations section 1.958-1(e)(2), and is a U.S. shareholder of the foreign corporation during a tax year 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 S corporation, of which you generally include in gross income a share. In such a case, your share of the S corporation's subpart F income inclusions and section 951(a)(1)(B) inclusions are reported on Schedule K-1, line 10, Other income (loss), and are not reported in Part V.

If the S corporation has not made an election to be treated as owning stock of a foreign corporation within the meaning of section 958(a) under Proposed Regulations section 1.958-1(e)(2); and is a U.S. shareholder of the foreign corporation during such tax year, then any subpart F income inclusions and section 951(a)(1)(B) inclusions with respect to a foreign corporation for such a tax year are inclusions of the S corporation, of which you generally include in gross income a share. In such case, your share of the S corporation's subpart F income inclusions and section 951(a)(1)(B)

inclusions are reported on Schedule K-1, line 10, Other income (loss), and are not reported in Part V.

If the S corporation elected to be treated as owning stock of a foreign corporation within the meaning of section 958(a) under Proposed Regulations section 1.958-1(e)(2), and the S corporation is a U.S. shareholder of the foreign corporation during a tax year of the foreign corporation, the S corporation determines its GILTI inclusion for its tax year in which or with which such tax year of the foreign corporation ends, of which you generally include in gross income a share. In such a case, your share of the S corporation's GILTI inclusion is reported on Schedule K-1, line 10, Other income (loss), and is not reported in Part V.

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

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 in Schedule A (Form 8992), Schedule of Controlled Foreign Corporation (CFC) Information To Compute Global Intangible Low-Taxed Income (GILTI), 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 in Schedule A (Form 8992), columns (e) through (j), respectively.

## Part VI. Information Regarding Passive Foreign Investment Companies (PFICs)

U.S. persons may be required to complete and file Form 8621 and/or include amounts in income with respect to PFICs owned through an S corporation. This includes PFICs with respect to which no qualified electing fund (QEF) or section 1296 mark-to-market (MTM) election has been made and unpedigreed QEFs (section 1291 funds), as well as PFICs with respect to which a pedigreed QEF, 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 VI (including any supplemental Attachments 5 and 6 from the Instructions for Schedules K-2 and K-3 (Form 1120-S), if applicable), as instructed below to complete Form 8621 with respect to each PFIC for which you have a filing obligation. Additionally, for any PFIC that you own through your interest in the S corporation, use the information provided in this Schedule K-3, Part VI (including any supplemental Attachments 5 and 6, if applicable), to determine your income inclusion with respect to the PFIC (if any) and complete your U.S. federal income tax return.

If a PFIC reported on this Schedule K-3 also constitutes a CFC within the meaning of section 957 (PFIC/CFC) and you are a U.S. shareholder (within the meaning of section 951(b)) with respect to that PFIC/CFC, the information on this schedule with respect to that 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. Note, however, if the S corporation elected to be treated as owning stock of a foreign corporation that is a PFIC/CFC within the meaning of section 958(a)

under Proposed Regulations section 1.958-1(e)(2), and the S corporation is a U.S. shareholder of the PFIC/CFC during a tax year of the foreign corporation, the S corporation is not required to complete Schedules K-2 and K-3, Part VI, with information regarding that PFIC/CFC. You may, however, have inclusions with respect to that PFIC/CFC reported on Schedule K-1, line 10, Other income (loss).

## Section 1—General Information

**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 in this Schedule K-3, Part VI, you may need additional information from the S corporation regarding the value of the PFIC shares reported in column (i) that is not reported here.

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

### S Corporation Election Codes for Column (j)

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

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

Additionally, if the S corporation marks to market stock of a PFIC as described in Regulations section 1.1291-1(c)(4), the S corporation generally does not need to report information about the PFIC in Schedules K-2 and K-3, Part VI. In such a case, the S corporation should report its MTM gain or loss on Schedule K and report your share of those amounts in Schedule K-1, Part III. Note, however, in such a case there may be instances in which you will need additional information from the S corporation to meet your tax

obligations with respect to a PFIC for which the S corporation has marked to market the stock as described in Regulations section 1.1291-1(c)(4), such as when the section 1291 rules apply to you because the stock was not marked by the S corporation in the first year of its holding period. In such instances, the S corporation should provide you with the needed information and may use Schedule K-3, Part VI, to do so.

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

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 S corporation that is not reported in this Schedule K-3, Part VI, including information regarding the PFIC's E&P.

## Section 2—Additional Information on PFIC or Qualified Electing Fund (QEF)

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

### QEF Information

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

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

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

## Section 1296 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 made (MTM PFIC), including PFICs with respect to which the S corporation is making a non-initial section 1296 MTM election.

If the S corporation has made an MTM election under section 1296 with respect to a PFIC (other than a non-initial section 1296 MTM election), and the S corporation files Form 8621 for that MTM PFIC, that MTM PFIC will typically not be reported in Schedule K-3, Part VI. In that case, your share of the S corporation's MTM gain or loss, if any, will be reported to you in Schedule K-1, Part III. However, in the event the S corporation does not file Form 8621 for an MTM PFIC or if the S corporation is making a non-initial section 1296 MTM election with respect to a PFIC, the shareholder may have a reporting obligation with respect to that PFIC. See Regulations section 1.1298-1(b)(2) for additional information. The S corporation is also not required to complete Schedule K-3, Part VI, with respect to a PFIC if it has marked stock of a PFIC to market as described in Regulations section 1.1291-1(c)(4), though it may provide you with certain information in Schedule K-3, Part VI, if the PFIC stock is not marked to market in the first year of the S corporation's holding period.

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

Additionally, if the S corporation 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 pro rata share of the S corporation's section 1296(a) gain for the tax year (if any) is treated as an excess distribution. This will help you determine any corresponding other income, additional tax, and interest charges under section 1291.

## 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 S corporation.

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

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

**Column (h).** Your share of the amount of cash and FMV of property distributed by the PFIC during the tax year may be reported in 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 the S corporation is making a non-initial section 1296 MTM election, or a PFIC that now may be treated as a qualifying insurance corporation (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 S corporation 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 in Schedule K-3, Part VI. If you make, or have made, an election under section 1294 and are deemed to have received a distribution from the QEF, this information is required to complete Form 8621. See section 1294(f) and Temporary Regulations section 1.1294-1T for additional information.

**Note.** If you have made a section 1294 election with respect to a QEF owned by the S corporation, a distribution of earnings by the QEF will terminate the section 1294 election to the extent the election is attributable to the earnings distributed. In such a case, enter the amount of the distribution on Form 8621, Part VI, line 22. See Temporary 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 S corporation is making a non-initial section 1296 MTM election in which you are a shareholder through your

ownership in the S corporation. If you are required to file Form 8621 with respect to one of these types of PFICs owned by the S corporation, use this amount to determine your foreign tax credit to include on Part V, line 16d. See section 1291(g) for additional information on creditable foreign taxes.

**Column (k).** This information is to help you assess your excess distribution and resulting 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 S corporation or for a PFIC with respect to which the S corporation is making a non-initial section 1296 MTM election. If you are required to file Form 8621 with respect to one of these types of PFICs owned by the S corporation, use this amount to determine the amount to include on Form 8621, 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 S corporation 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 S corporation of stock in a PFIC in combination with column (g). These dates do not need to be entered on Form 8621.

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

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

For each section 1291 fund in which you are a shareholder through your ownership in the S corporation or for any PFIC with respect to which the S corporation is making a non-initial section 1296 MTM election for which you are required to file Form 8621, enter the amount from 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.

For each MTM PFIC in which you are a shareholder through your ownership in the S corporation (including PFICs with respect to which the S corporation is making a non-initial section 1296 MTM election), and with respect to which you are required to file Form 8621, enter the amounts from columns (m) and (n), on Form 8621, Part IV, lines 13a and 13b, respectively. 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.

For each QEF in which you are a shareholder through your ownership in the S corporation 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 that 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 Temporary Regulations section 1.1294-1T and the Form 8621 instructions for additional information.

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

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

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

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

A shareholder electing under section 962 to claim a deemed paid credit with respect to an inclusion under section 951 will use Schedule K-3, Part VII, to complete Form 1118, Schedule C; see section 960(a). The shareholder will use column (ii) (the share of net income in each subpart F income group of the CFC) to report in Form 1118, Schedule C, column 8(a). The shareholder will use column (iii) (the total net income in the subpart F income groups of the CFC) to report in Form 1118, Schedule C, column 6. The shareholder will use column (iv) (the total current year taxes by the subpart F income groups of the CFC) to report in Form 1118, Schedule C, column 7. The shareholder must also complete Form 1118, Schedule C, column 5, with information from Schedule K-3, Part VII.

**Note.** The amount entered in Form 1118, Schedule C, 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).

Similarly, a shareholder electing under section 962 to claim a deemed paid credit with respect to an inclusion under section 951A will use Schedule K-3, Part VII, to report on Form 1118, Schedule D; see section 960(d). The shareholder will use column (ii) (the shareholder's share of the foreign corporation's net income by tested income group) to report in Form 1118, Schedule D, column 5. The shareholder will use column (iii) (the foreign corporation's total net income by tested income group) to report in Form 1118, Schedule D, column 6. The shareholder will use column (iv) (the foreign corporation's current year tested foreign taxes for which credit is allowed by tested income groups) to report in Form 1118, Schedule D, column 8.

**Example 5. Use Schedule K-3 to claim deemed paid credit.** In Year 1, USC, an S corporation, has two U.S. citizen shareholders with equal interests in the S corporation. Both

shareholders make elections under section 962. USC wholly owns CFC. CFC earns passive category interest income

sourced from Country X of 100u and pays a withholding tax of \$20 to a foreign country. The code for Country X is "X."

**Example 5. USC’s Schedule K-3, Part VII, for Shareholders**

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

<b>B</b> Separate category . . . . .		PAS			
<b>C</b> If PAS was entered on line B, applicable grouping under Regulations section 1.904-4(c) . . . . .		i			
Amounts are in functional currency unless otherwise noted.		<b>(i)</b> Country code	<b>(ii)</b> Shareholder's share of foreign corporation's net income (functional currency)	<b>(iii)</b> Foreign corporation's total net income (functional currency)	<b>(iv)</b> Foreign corporation's current year foreign taxes for which credit allowed (U.S. dollars)
<b>1</b>	Subpart F income groups				
	<b>a</b> Dividends, interest, rents, royalties, and annuities (total) . . . . .				
	<b>(1)</b> Unit: CFC	X	50u	100u	\$20

**Example 5, Shareholder’s Form 1118, Schedule C**

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

1a. Name of Foreign Corporation	5. Subpart F Income Group			6. Total Net Income in Subpart F Income Group (functional currency)	7. Total Eligible Current Year Taxes in Subpart F Income Group (U.S. dollars)	8. Section 951(a)(1) Inclusion Attributable to Subpart F Income Group  (a) Functional Currency	9. Divide Column 8(a) by Column 6	10. Tax Deemed Paid (multiply column 7 by column 9)
	(a) Reg. sec. 1.960-1(d)(2)(ii) (B)(2)	(b) Reg. sec. 1.904-4(c)(3) (i)-(iv)	(c) Unit					
CFC	DIRRA	i	CFC	100u	\$20	50u	0.500	\$10