2015 Instructions for Form 1116

Department of the Treasury
Internal Revenue Service

Foreign Tax Credit (Individual, Estate, or Trust)

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

Future Developments

For the latest information about developments related to Form 1116 and its instructions, such as legislation enacted after they were published, go to *www.irs.gov/form1116*.

General Instructions

Election To Claim the Foreign Tax Credit Without Filing Form 1116

You may be able to claim the foreign tax credit without filing Form 1116. By making this election, the foreign tax credit limitation (lines 15 through 21 of the form) will not apply to you. This election is available only if you meet all of the following conditions.

- All of your foreign source gross income was "passive category income" (which includes most interest and dividends). See *Passive Category Income*, later. However, for this purpose, passive income also includes (a) income subject to the special rule for high-taxed income described later, and (b) certain export financing interest.
- All the income and any foreign taxes paid on it were reported to you on a qualified payee statement. Qualified payee statements include Form 1099-DIV, Form 1099-INT, Schedule K-1 (Form 1041), Schedule K-1 (Form 1065), Schedule K-1 (Form 1065-B), Schedule K-1 (Form 1120S), or similar substitute statements.
- Your total creditable foreign taxes are not more than $300 ($600 if married filing a joint return).

This election is not available to estates or trusts.

If you make this election:

- You cannot carry over to or from any other year any foreign taxes paid or accrued in a tax year to which the election applies (but carryovers to and from other years are unaffected). See the instructions for line 10, later.
- You are still required to take into account the general rules for determining whether a tax is creditable. See *Foreign Taxes Eligible for a Credit* and *Foreign Taxes Not Eligible for a Credit*, later.
- You are still required to reduce the taxes available for credit by any amount you would have entered on line 12 of Form 1116. See the instructions for line 12, later.

To make the election, just enter on the foreign tax credit line of your tax return (for example, Form 1040, line 48) the smaller of (a) your total foreign tax or (b) your regular tax (for example, the total of lines 44 and 46 on Form 1040).

Purpose of Form

Who should file. File Form 1116 to claim the foreign tax credit if the election, earlier, does not apply and:

- You are an individual, estate, or trust; and
- You paid or accrued certain foreign taxes to a foreign country or U.S. possession.

See *Foreign Taxes Eligible for a Credit*, later, to determine if the taxes you paid or accrued qualify for the credit.

Do not use Form 1116 to figure a credit for taxes paid to the U.S. Virgin Islands. Instead, use Form 8689, Allocation of Individual Income Tax to the U.S. Virgin Islands.

Nonresident aliens. If you are a nonresident alien, you generally cannot take the credit. However, you may be able to take the credit if:

- You were a resident of Puerto Rico during your entire tax year, or
- You pay or accrue tax to a foreign country or U.S. possession on income from foreign sources that is effectively connected with a trade or business in the United States. But if you must pay tax to a foreign country or U.S. possession on income from U.S. sources only because you are a citizen or a resident of that country or U.S. possession, do not use that tax in figuring the amount of your credit.

See section 906 for more information on the foreign tax credit allowed to a nonresident alien individual.

Credit or Deduction

Instead of claiming a credit for eligible foreign taxes, you can choose to deduct foreign income taxes. Form 1040 filers choosing to do so would deduct foreign income taxes on Schedule A (Form 1040), Itemized Deductions. Generally, if you take the credit for any eligible foreign taxes, you cannot take any part of that year's foreign taxes as a deduction. However, even if you take the credit for eligible foreign taxes for the year, you can take a deduction for:

- Foreign taxes not allowed as a credit because of boycott provisions.
- Taxes paid to certain foreign countries for which a credit has been denied, as described in item (2) under *Foreign Taxes Not Eligible for a Credit*, later.
- Taxes on income or gain that are not creditable because you do not meet the

Tax Help

For more information about, or assistance with, figuring the foreign tax credit, the following IRS resources are available.	
IRS Contacts	• Call 267-941-1000 (overseas) (not toll free).
	• Write to Internal Revenue Service, International Accounts, Philadelphia, PA 19255-0725.
Publications	• Pub. 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad.
	• Pub. 514, Foreign Tax Credit for Individuals.
	• Pub. 519, U.S. Tax Guide for Aliens.
	• Pub. 570, Tax Guide for Individuals With Income From U.S. Possessions.
	• Pub. 575, Pension and Annuity Income.

holding period requirement, as described in item (3) or (5) under [Foreign Taxes Not Eligible for a Credit](#), later.

- Taxes on income or gain that are not creditable because you have to make related payments, as described in item (4) or (6) under Foreign Taxes Not Eligible for a Credit, later.
- Certain taxes paid or accrued to a foreign country in connection with the purchase or sale of oil or gas extracted in that country, as described in item (8) under Foreign Taxes Not Eligible for a Credit, later.
- Taxes on income or gain that are not creditable because they were paid or accrued in connection with a covered asset acquisition, as described in item (10) under Foreign Taxes Not Eligible for a Credit, later.

If you want to change your election to take a deduction instead of a credit, or a credit instead of a deduction, you must do so within a special 10-year limitation period. Note that while the limitations period for refund claims relating to a foreign tax credit generally runs parallel with the election period, the limitations period for refund claims relating to a deduction of foreign tax does not, and may expire before the end of the election period. See Pub. 514 for more information.

Foreign Taxes Eligible for a Credit

You can take a credit for income, war profits, and excess profits taxes paid or accrued during your tax year to any foreign country or U.S. possession, or any political subdivision (for example, city, state, or province) of the country or possession. This includes taxes paid or accrued in lieu of a foreign or possession income, war profits, or excess profits tax that is otherwise generally imposed. For purposes of the credit, U.S. possessions include Puerto Rico and American Samoa.

U.S. citizens living in certain treaty countries may be able to take an additional foreign tax credit for foreign tax imposed on certain items of income from the United States. See *Tax Treaties* in Pub. 514 for details.

Foreign Taxes Not Eligible for a Credit

You cannot take a credit for the following foreign taxes.

1. Taxes paid to a foreign country that you do not legally owe, including amounts eligible for refund by the foreign country. If you do not exercise your available remedies to reduce the amount of foreign tax to what you legally owe, a credit for the excess amount is not allowed. The amount of tax actually withheld by a foreign country is not necessarily 100% creditable. See Regulations section 1.901-2(e)(2)(i).

Example. Country X withholds $25 of tax from a payment made to you. Under the income tax treaty between the United States and Country X, you owe only $15 and can claim a refund from Country X for the other $10. Only $15 is eligible for the foreign tax credit (whether or not you apply for a refund).

2. Taxes imposed by and paid to certain foreign countries. These countries are those designated by the Secretary of State as countries that repeatedly provide support for acts of international terrorism, countries with which the United States does not have or does not conduct diplomatic relations, or countries whose governments are not recognized by the United States and are not otherwise eligible to purchase defense articles or services under the Arms Export Control Act. Pub. 514 contains a list of these countries.

3. Foreign taxes withheld on a dividend from a corporation, if you have not held the stock for at least 16 days within the 31-day period that begins 15 days before the ex-dividend date. This required holding period is greater for preferred-stock dividends attributable to periods totaling more than 366 days. See section 901(k)(3) or Pub. 514.

4. Foreign taxes withheld on a dividend to the extent that you have to make related payments on positions in substantially similar or related property.

Example. You receive a dividend subject to foreign withholding tax. You are obligated to pay someone else an amount equal to all these dividends you receive. You cannot claim a foreign tax credit for the withholding tax on these dividends.

5. Foreign taxes withheld on income or gain (other than dividends) from property if you have not held the property for at least 16 days within the 31-day period that begins 15 days before the date on which the right to receive the payment arises. See section 901(l) or Pub. 514.

6. Foreign taxes withheld on income or gain (other than dividends) from property to the extent you have to make related payments on positions in substantially similar or related property.

7. Payments of foreign tax that are returned to you in the form of a subsidy.

8. Taxes paid or accrued to a foreign country in connection with the purchase or sale of oil or gas extracted in that country if you do not have an economic interest in the oil or gas, and the purchase price or sales price is different from the fair market value of the oil or gas at the time of the purchase or sale.

9. Foreign taxes paid or accrued on income for which you are claiming an exclusion on Form 8873, Extraterritorial Income Exclusion. However, see section 943(d) for an exception for certain withholding taxes.

10. The disqualified portion of any foreign tax paid or accrued in connection with a covered asset acquisition. Covered asset acquisitions include certain acquisitions that result in a stepped-up basis for U.S. tax purposes. For more information, see section 901(m). The IRS intends to issue guidance that will explain this provision in greater detail.

You cannot take a credit for any interest or penalties you must pay.

Foreign Currency Conversion

Report all amounts in U.S. dollars except where specified otherwise in Part II. If you have to convert from foreign currency, attach a detailed explanation of how you figured the conversion rate.

If you take a credit for taxes paid, the conversion rate is the rate of exchange in effect on the day you paid the foreign taxes (or on the day the tax was withheld). If you receive a refund of foreign taxes paid, the conversion rate is the rate in effect when you paid the taxes, not when you receive the refund.

If you choose to account for foreign income taxes on an accrual basis, you must generally use the average exchange rate for the tax year to which the taxes relate. However, you cannot do so if any of the following apply.

1. The foreign taxes are actually paid more than 2 years after the close of the tax year to which they relate.
2. The foreign taxes are actually paid in a tax year prior to the year to which they relate.
3. The foreign tax liability is denominated in any inflationary currency.

Accrued foreign taxes not eligible for conversion at the yearly average exchange rate must be converted using the exchange rate on the date of payment of the tax. However, accrued but unpaid foreign taxes denominated in inflationary currency must be translated into U.S. dollars using the exchange rate on the last day of the U.S. tax year to which those taxes relate.

Inflationary currency. Inflationary currency means the currency of a country in which there is cumulative inflation during the 36 calendar months immediately preceding the last day of the tax year of at least 30%, as determined by reference to the consumer price index of the country listed in the monthly issues of International Financial Statistics, or a successor publication, of the International Monetary Fund.

Election to use exchange rate on date paid. If you have accrued foreign taxes that you are otherwise required to convert using the average exchange rate, you can elect to use the exchange rate in effect on the date the foreign taxes are paid if the taxes are denominated in a nonfunctional foreign currency. If any of the accrued taxes are unpaid, you must translate them into U.S. dollars using the exchange rate on the last day of the U.S. tax year to which those taxes relate. Once made, the election applies to the tax year for which made and all subsequent tax years unless revoked with the consent of the IRS. It must be made by the due date (including extensions) for filing the tax return for the first tax year to which the election applies. Make the election by attaching a statement to the applicable tax return.

Special rules for a qualified business unit. If you have a qualified business unit, see Pub. 514 for special rules for converting foreign income and taxes into U.S. dollars. You may have a qualified business unit if you own and operate a business or are self-employed in a foreign country.

Foreign Tax Redeterminations

If you claim a credit for foreign taxes paid, and you receive a refund of all or part of those taxes in a later year, you must file an amended return reducing the taxes credited by the amount refunded.

If you claim the foreign tax credit based on foreign taxes accrued instead of foreign taxes paid, your credit must be redetermined in any of the following situations.

1. Your accrued taxes when paid differ from the amount you claimed as a credit.

2. You do not pay the accrued taxes within 2 years after the close of the tax year to which they relate.

If this applies to you, you must reduce the credit previously claimed by the amount of the unpaid taxes. You will not be allowed a credit for the unpaid taxes until you pay them. When you pay the accrued taxes, a new tax redetermination occurs and you must translate the taxes into U.S. dollars using the exchange rate as of the date they were paid. The foreign tax credit is allowed for the year to which the foreign tax relates. See *Foreign Currency Conversion*, earlier.

3. After you pay the accrued taxes, you receive a full or partial refund of them.

4. For taxes taken into account when accrued but translated into dollars on the date of payment, the dollar value of the accrued tax differs from the dollar value of the tax paid because of fluctuations in the exchange rate between the date of accrual and the date of payment. However, no redetermination is required if the change in foreign tax liability for each foreign country is solely attributable to exchange rate fluctuation and is less than the smaller of:

a. $10,000, or

b. 2% of the total dollar amount of the foreign tax initially accrued for that foreign country for the U.S. tax year.

In this case, you must adjust your U.S. tax in the tax year in which the accrued foreign taxes are paid.

If any of the above situations occurs after you file your return, you generally must file Form 1040X, Amended U.S. Individual Income Tax Return, or other amended return, to notify the IRS so that your U.S. tax for the year or years affected can be redetermined. Complete and attach to Form 1040X (or other amended return) a revised Form 1116 for the tax year(s) affected and a statement that contains information sufficient for the IRS to redetermine your U.S. tax liability. In some cases, you may not have to file Form 1040X or attach Form 1116. See Pub. 514 for more information, including exceptions.

CAUTION *If you do not notify the IRS of a foreign tax refund or change in the dollar amount of foreign taxes paid or accrued, you will have to pay a penalty unless you can show that the failure to notify the IRS is due to reasonable cause and not due to willful neglect.*

Income From Sources Outside the United States

Foreign source income generally includes, but is not limited to, the following.

- Compensation for services performed outside the United States.
- Interest income from a payer located outside the United States.
- Dividends from a corporation incorporated outside the United States.
- Gain on the sale of nondepreciable personal property you sold while maintaining a tax home outside the United States, if you paid a tax of at least 10% of the gain to a foreign country.

Foreign source income generally does not include gain realized on the sale or exchange of personal property by a U.S. resident as defined in section 865(g).

Special rules apply in determining the source of income from the sale of inventory; sale of depreciable property used in a trade or business; sale of intangible property such as a patent, copyright, or trademark; and transportation services that begin or end in the United States or a U.S. possession. See Pub. 514 for more information.

Compensation for labor or personal services as an employee. If you are an employee and receive compensation for labor or personal services performed both inside and outside the United States, special rules apply in determining the source of the compensation. Compensation (other than fringe benefits) is sourced on a time basis. Fringe benefits (such as housing and education) are sourced on a geographical basis. Or you may be able to use an alternative basis to determine the source. If you use an alternative basis, you may have to check the box on line 1b (discussed later). See Pub. 514 for more information.

Categories of Income

Use a separate Form 1116 to figure the credit for each category of foreign source income listed above Part I of Form 1116. The following instructions tell you what kind of income to include in each category. For more information, see Pub. 514, Code section 904, and

Regulations sections 1.904-4 and 1.904-5.

a. Passive Category Income

Passive category income consists of passive income and specified passive category income.

Passive category income does not include gain from the sale of inventory or property held primarily for sale to customers in the ordinary course of your trade or business; gain from commodities hedging transactions; and active business gains or losses of producers, processors, merchants, or handlers of commodities. It may also not include dividends, interest, rents, or royalties received from a controlled foreign corporation (CFC) in which you are a U.S. shareholder who owns 10% or more of the total voting power of all classes of the corporation's stock.

Passive income. Passive income generally includes dividends, interest, royalties, rents, annuities, excess of gains over losses from the sale of property that produces such income or of non-income-producing investment property, and excess of gains over losses from foreign currency or commodities transactions. Capital gains not related to the active conduct of a trade or business are also generally passive income.

Passive income does not include export financing interest, active business rents and royalties, or high-taxed income (see *High-taxed income*, later).

Specified passive category income. Dividends from a DISC (domestic international sales corporation) or former DISC to the extent they are treated as foreign source income, and certain distributions from a former FSC (foreign sales corporation) are specified passive category income.

b. General Category Income

General category income is income that is not passive category income or income described in categories c, d, and e, discussed later. General category income may include:

- Wages, salary, and overseas allowances of an individual as an employee.
- Income earned in the active conduct of a trade or business.
- Gains from the sale of inventory or depreciable property used in a trade or business.

Financial services income. In general, financial services income is treated as general category income if it is derived by a financial services entity. You are a financial services entity if you are predominantly engaged in the active conduct of a banking, insurance, financing, or similar business for any tax year. Financial services income of a financial services entity generally includes income derived in the active conduct of a banking, financing, insurance, or similar business. Financial services income of a financial services entity also includes passive income and certain incidental income.

If you qualify as a financial services entity because you treat certain items of income as active financing income under Regulations section 1.904-4(e)(2)(i)(Y), you must show the type and amount of each item on an attachment to Form 1116.

High-taxed income. In some cases, passive income and taxes must be treated as general category income and taxes. Generally, passive income and taxes must be treated as general category income if the foreign taxes you paid on the income (after allocation of expenses) exceed the highest U.S. tax that can be imposed on the income. However, passive income that is financial services income is treated as general category income regardless of whether it is high-taxed income. See Pub. 514 and Regulations section 1.904-4(c) for more information.

c. Section 901(j) Income

No credit is allowed for foreign taxes imposed by and paid or accrued to certain sanctioned countries. However, income derived from each sanctioned country is subject to a separate foreign tax credit limitation. Therefore, you must use a separate Form 1116 for income derived from each sanctioned country. Because no credit is allowed for taxes paid to sanctioned countries, you would generally complete Form 1116 for this category only through line 17.

Sanctioned countries are those designated by the Secretary of State as countries that repeatedly provide support for acts of international terrorism, countries with which the United States does not have or does not conduct diplomatic relations, or countries whose governments are not recognized by the United States and are not otherwise eligible to purchase defense articles or services under the Arms Export Control Act. Pub. 514 contains a list of these countries.

If you paid taxes to a country that ceased to be a sanctioned country during the tax year, see Pub. 514 for details on how to figure the foreign tax credit for the period that begins after the end of the sanctions.

Presidential waiver. The President of the United States has the authority to waive the denial of the credit with respect to a sanctioned country if:

- The waiver is in the national interest of the United States and will expand trade and investment opportunities for U.S. companies in the sanctioned country, and
- The President reports to the Congress, not less than 30 days before the waiver is granted, the intention to grant the waiver and the reason for the waiver.

d. Certain Income Re-Sourced by Treaty

If a sourcing rule in an applicable income tax treaty treats U.S. source income as foreign source, and you elect to apply the treaty, the income will be treated as foreign source.

Important. You must compute a separate foreign tax credit limitation for any income for which you claim benefits under a treaty, using a separate Form 1116 for each amount of re-sourced income from a treaty country. See sections 865(h), 904(d)(6), and 904(h)(10) and the regulations under those sections (including 1.904-5(m)(7)) for any grouping rules and exceptions. Add the amounts from line 22 of each separate Form 1116 and enter the total on line 25 of your summary Form 1116 (that is, the Form 1116 for which you are completing Part IV). In addition, you may be required to file Form 8833, Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b), for the re-sourced income.

e. Lump-Sum Distributions

You can take a foreign tax credit for taxes you paid or accrued on a foreign source lump-sum distribution from a pension plan. Special formulas may be used to figure a separate tax on a qualified lump-sum distribution for the year in which the distribution is received. See Pub. 575 for more information.

If you are able to elect, and do elect, to figure your U.S. tax on a lump-sum distribution using Form 4972, Tax on Lump-Sum Distributions, a separate foreign tax credit limitation applies. Use a separate Form 1116. On this separate Form 1116, check box e above Part I. Skip Part I. Complete Part II showing

Worksheet for Lump-Sum Distributions *Keep for Your Records*

1.	Enter the amount from Form 1116, line 8	**1.**	______
2.	Enter the sum of the amounts from Form 4972, lines 6 and 12, that are from **foreign** sources. Also enter this amount on Form 1116, line 17	**2.**	______
3.	Enter the sum of the amounts from Form 4972, lines 6 and 12, that are from **all** sources (both U.S. and foreign). Also enter this amount on Form 1116, line 18	**3.**	______
4.	Divide line 2 by line 3. Enter the result as a decimal (rounded to at least four places) here and on Form 1116, line 19. If line 2 is equal to or more than line 3, enter "1"	**4.**	______
5.	Enter the amount from Form 4972, line 30. Also include this amount on Form 1116, line 20	**5.**	______
	Caution: ***Do not*** *include the amount on line 5 above in the tax you enter on line 20 of any other Form 1116 you are filing.*		
6.	Multiply line 5 by line 4. Enter the result here and on Form 1116, line 21	**6.**	______
7.	Enter the **smaller** of line 1 or line 6 here and on Form 1116, line 22. To the left of line 22, write "LSD"	**7.**	______

only foreign taxes that are attributable to the lump-sum distribution. Then, complete the Worksheet for Lump-Sum Distributions above to figure the amounts to enter in Part III.

Special Rules

Look-Through Rules

Certain income received or accrued by you as a 10%-or-more U.S. shareholder in a controlled foreign corporation (CFC) is treated as income in one of the separate categories listed under *Categories of Income*, earlier. For example, Subpart F inclusions, dividends, interest, rents, and royalties from a CFC are treated as separate category income to the extent they are attributable to separate category income of the CFC. See Regulations section 1.904-5 for more information.

Reporting Foreign Tax Information From Partnerships and S Corporations

If you received a 2015 Schedule K-1 from a partnership or S corporation that includes foreign tax information, use the rules below to report that information on Form 1116.

General Information for Partners and S Corporation Shareholders

Less-than-10% limited partners and certain less-than-10% S corporation shareholders. If you are a limited partner or an S corporation shareholder who does not actively participate in the management of the S corporation and you own a less-than-10% interest (by value) in the partnership or S corporation, you generally may categorize your distributive share of foreign source income and deductions from that partnership or S corporation as passive income. See Regulations section 1.904-5(h)(2) for more details and exceptions.

CAUTION *This rule takes precedence over the income category rules outlined in the instructions that follow for line 16, codes C and D–F, of Schedule K-1 (Form 1065) (or line 14, codes C and D–F, of Schedule K-1 (Form 1120S)), and the apportionment of deductions rules outlined in the instructions for line 16 later, codes H and I–K (or line 14, codes H and I–K) of the Schedule K-1.*

Reporting amounts on Form 1116. Include amounts reported to you on Schedule K-1 with any other amounts reportable on Form 1116 using:

- A separate Form 1116 for each category of income.
- A separate column in Part I and a separate line in Part II for each country or possession.

Explanation of Certain Line Items on Schedule K-1

TIP *In each instance that follows, the first line reference is to the Schedule K-1 for Form 1065 and the second line reference is to the Schedule K-1 for Form 1120S. (The Schedule K-1 for Form 1065-B includes all foreign tax information in box 9 or in an attachment for box 9.)*

Line 16, code B, or line 14, code B—Gross income from all sources. Combine your distributive share of "gross income from all sources" with all of your other gross income and enter the total on line 3e. "Gross income from all sources" is a constant amount (that is, you will enter the same amount on line 3e of all Forms 1116 that you file).

Line 16, code C, or line 14, code C—Gross income sourced at partner or shareholder level. This line includes income from the sale of eligible personal property (most personal property other than inventory, depreciable property, and certain intangible property). See Pub. 514 for details.

CAUTION *Although all income reported to you on this line of the Schedule K-1 has been apportioned to separate categories of income, you must nevertheless first determine (using the rules below) whether the income on this line is U.S. source income or foreign source income. Then, enter only foreign source income in Part I of each of the applicable Forms 1116 (that is, those Forms 1116 for each category of income you received from the partnership or S corporation).*

Use the following rules to source the income reported to you on this line of the Schedule K-1. If you are a U.S. resident (as defined below), the income is U.S. source income. If you are a nonresident (as defined later), the income is foreign source income.

U.S. resident. A U.S. resident is a U.S. citizen or resident alien who does not have a tax home in a foreign country or a nonresident alien who has a tax home in the United States.

Tax home. Generally, your tax home is the general area of your main place of business, employment, or post of duty, regardless of where you maintain your family home. Your tax home is the place where you are permanently or indefinitely engaged to work as an employee or self-employed individual. If you do not have a regular or main place of business because of the nature of your work, then your tax home is the place where you regularly live. If you do not fit either of these categories, you are considered an itinerant and your tax home is wherever you work.

Nonresident. A nonresident is any person who is not a U.S. resident. U.S. citizens and resident aliens with a foreign tax home will not be treated as nonresidents for a sale of eligible personal property unless a foreign tax of 10% or more was paid or accrued on the gain on the sale (or, in the case of a loss sale, a foreign tax of 10% or more would have been paid had the sale resulted in a gain).

Note. To help you with these rules, the partnership or S corporation has specifically identified the following.

- Gains on the sale of eligible personal property for which a foreign tax of 10% or more was paid or accrued.
- Losses on the sale of eligible personal property for which a foreign tax of 10% or more would have been paid had the sale resulted in a gain.

Include foreign source income in Part I of the applicable Form 1116 (that is, the Form 1116 for each category of income provided to you for this line of the Schedule K-1). Do not include in Part I of Form 1116 income that you determined (using the above rules) to be U.S. source income.

CAUTION *If the partnership or S corporation has specifically identified any capital gains or losses or unrecaptured section 1250 gain on this line (Schedule K-1, line 16, code C, or line 14, code C) and you have determined that those gains or losses are foreign source, see Foreign Qualified Dividends and Capital Gains (Losses), later, before entering an amount in Part I of Form 1116.*

Line 16, codes D, E, and F, or line 14, codes D, E, and F—Foreign gross income sourced at partnership or S corporation level. Income reported on this line has already been sourced for you by the partnership or S corporation. The partnership or S corporation has reported this income to you by country and by category of income. Include these amounts in Part I of each of the applicable Forms 1116 (that is, those Forms 1116 for each category of income you received).

TIP *You should disregard any information shown on your Schedule K-1 pertaining to gross income attributable to a foreign branch. It is intended only for corporate partners preparing Form 1118.*

Line 16, code G, or line 14, code G—Interest expense. See the instructions for line 4b, later, to allocate and apportion the interest expense shown on this line of Schedule K-1. In applying those instructions, take into account your distributive share of the partnership's or S corporation's gross income (for purposes of the $5,000 threshold) or your *pro rata* share of the partnership's or S corporation's assets. However, if you were a limited partner or an S corporation shareholder who did not actively participate in the management of the S corporation and your interest in the partnership or S corporation was less than 10%, see the next paragraph. Include interest expense that you allocate to foreign source income on line 4b of the applicable Form 1116. Do not enter in Part I of Form 1116 any interest expense that you allocate to U.S. source income.

Less-than-10% limited partners and certain less-than-10% S corporation shareholders. If you are a limited partner or an S corporation shareholder (who does not actively participate in the management of the S corporation) and you own (directly or indirectly) a less-than-10% interest (by income) in the partnership or S corporation, you may generally allocate your distributive share of interest expense from that partnership or S corporation to foreign or U.S. source income based on your distributive share of the gross foreign or U.S. source income of that partnership or S corporation. The interest expense you allocate to foreign source income generally may be apportioned exclusively to passive category income. However, see Temporary Regulations section 1.861-9T(e)(4) for exceptions.

Line 16, code H, or line 14, code H—Other expenses. This line includes expenses (other than interest expense) of the partnership or S corporation that must be allocated and apportioned at the partner or shareholder level (for example, research and experimental expenses).

Combine your distributive share of these expenses with all of your other like expenses, if any, and then allocate and apportion them using the applicable rules (for example, for research and experimental expenses, the rules under Regulations section 1.861-17(f)).

Include expenses that you allocate to foreign source income on line 2 of the applicable Form 1116. Expenses that you allocate to U.S. source income should not be entered on any line of Part I of Form 1116.

Line 16, codes I, J, and K, or line 14, codes I, J, and K—Deductions allocated and apportioned at partnership or S corporation level to foreign source income. The partnership or S corporation has already allocated these expenses to foreign source income and has reported them to you by country and by category of income. Include these amounts on line 2 of each of the applicable Forms 1116 (that is, those Forms 1116 for each category of income you received).

TIP *You should disregard any information shown on your Schedule K-1 pertaining to definitely allocable deductions attributable to a foreign branch. It is intended only for corporate partners preparing Form 1118.*

Line 16, codes L and M, or line 14, codes L and M—Total foreign taxes. The partnership or S corporation has already allocated and apportioned total foreign taxes for you and has reported them to you by country and by category of income. Include these amounts in Part II of each of the applicable Forms 1116 (that is, those Forms 1116 for each category of income you received).

Line 16, code N, or line 14, code N—Reduction in taxes available for credit. The partnership or S corporation has already apportioned the reduction in taxes available for credit and has reported it to you by country and by category of income. Include these amounts on line 12 of each of the applicable Forms 1116 (that is, those Forms 1116 for each category of income you received).

Foreign Qualified Dividends and Capital Gains (Losses)

TIP *Qualified dividends are the amounts you entered on Form 1040, line 9b, or Form 1040NR, line 10b.*

If you have foreign source qualified dividends or foreign source capital gains (including any foreign source capital gain distributions) or losses, you may be required to make certain adjustments to those amounts before taking them into account on line 1a (gross income) or line 5 (losses).

If you completed the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for your tax return, and are not required to file Schedule D, see *Qualified Dividends and Capital Gain Tax Worksheet (Individuals)* next to determine the adjustments you may be required to make. If you completed the Qualified Dividends Tax Worksheet in the Instructions for Form 1041, see *Qualified Dividends Tax Worksheet (Estates and Trusts)*, later, to determine the adjustments you may be required to make. If you are required to file Schedule D, see *Schedule D Filers*, later, to determine the adjustments you may be required to make.

You can elect not to make the adjustments to your qualified dividends and capital gains if you qualify for the adjustment exception. See *Adjustment exception* under *Qualified Dividends and Capital Gain Tax Worksheet (Individuals)*, *Qualified Dividends Tax Worksheet (Estates and Trusts)*, and *Schedule D Filers*.

Qualified Dividends and Capital Gain Tax Worksheet (Individuals)

If you completed the Qualified Dividends and Capital Gain Tax Worksheet in your tax return instructions and you do not have to file Schedule D, you may have to adjust the amount of your foreign source qualified dividends and capital gain distributions.

Form 1040 filers. You must adjust the amount of your foreign source qualified dividends and capital gain distributions if both of the following apply.

- Line 7 of the Qualified Dividends and Capital Gain Tax Worksheet is greater than zero.
- Line 25 of the Qualified Dividends and Capital Gain Tax Worksheet is less than line 26 of that worksheet.

Form 1040NR filers. You must adjust the amount of your foreign source qualified dividends and capital gain distributions if both of the following apply.

- Line 5 of the Qualified Dividends and Capital Gain Tax Worksheet is greater than zero.
- Line 23 of the Qualified Dividends and Capital Gain Tax Worksheet is less than line 24 of that worksheet.

Adjustment exception. If you qualify for the adjustment exception, you can elect not to adjust your foreign source capital gain distributions and qualified dividends. You make this election by not adjusting these items. If you make this election, you must elect not to adjust **any** of your foreign source qualified dividends or capital gain distributions.

Adjustment exception for Form 1040 filers. You qualify for the adjustment exception if you meet both of the following requirements.

1. Line 7 of the Qualified Dividends and Capital Gain Tax Worksheet does not exceed:

   a. $230,450 if married filing jointly or qualifying widow(er),

   b. $115,225 if married filing separately,

   c. $189,300 if single, or

   d. $209,850 if head of household.

2. The amount of your foreign source capital gain distributions, plus the amount of your foreign source qualified dividends, is less than $20,000. For this purpose, ignore any capital gain distributions or qualified dividends you elected to include on Form 4952, line 4g.

Adjustment exception for Form 1040NR filers. If you file Form 1040NR, you qualify for the adjustment exception if you meet both of the following requirements.

1. Line 5 of the Qualified Dividends and Capital Gain Tax Worksheet does not exceed:

   a. $230,450 if you checked filing status box 6,

   b. $115,225 if you checked filing status box 3, 4, or 5, or

   c. $189,300 if you checked filing status box 1 or 2.

2. The amount of your foreign source capital gain distributions, plus the amount of your foreign source qualified dividends, is less than $20,000.

How to make adjustments. To adjust your foreign source qualified dividends or capital gain distributions, multiply your foreign source qualified dividends or capital gain distributions in each separate category by 0.3788 if the foreign source qualified dividends or capital gain distributions are taxed at a rate of 15%, and by 0.5051 if they are taxed at a 20% rate. Include the results on line 1a of the applicable Form 1116.

You adjust your foreign source qualified dividends or capital gain distributions taxed at the 0% rate by **not** including them on line 1a.

CAUTION *Do not adjust the amount of any foreign source qualified dividends or capital gain distributions that you elected to include on Form 4952, line 4g.*

No adjustments required. If you are not required to adjust the amount of your foreign source qualified dividends or capital gain distributions, or you qualify for the adjustment exception and elect not to adjust these items, include the amount of your foreign source qualified dividends and capital gain distributions in each separate category (without adjustment) on line 1a of the applicable Form 1116.

Qualified Dividends Tax Worksheet (Estates and Trusts)

If you completed the Qualified Dividends Tax Worksheet in the Instructions for Form 1041, you must adjust the amount of your foreign source qualified dividends if:

- Line 5 of the Qualified Dividends Tax Worksheet is greater than zero, and
- Line 21 of the Qualified Dividends Tax Worksheet is less than line 22 of that worksheet.

Adjustment exception. If you qualify for the adjustment exception, you can elect not to adjust your foreign source qualified dividends. You make this election by not adjusting these dividends. If you make this election, you must elect not to adjust **any** of your foreign source qualified dividends. You qualify for the adjustment exception if:

1. Line 5 of the Qualified Dividends Tax Worksheet does not exceed $9,050, and

2. The amount of foreign source qualified dividends reported on Form 1041, line 2b(2), is less than $20,000. For this purpose, ignore any qualified dividends you elected to include on Form 4952, line 4g.

How to make adjustment. To adjust your foreign source qualified dividends, multiply your foreign source qualified dividends in each separate category by 0.3788 if the foreign source qualified dividends are taxed at a rate of 15%, and by 0.5051 if they are taxed at a 20% rate. Include the results on line 1a.

You adjust your foreign source qualified dividends taxed at the 0% rate by **not** including them on line 1a.

CAUTION: Do not adjust the amount of any foreign source qualified dividends that you elected to include on Form 4952, line 4g.

No adjustment required. If you are not required to make adjustments to your foreign source qualified dividends (or you qualify for the adjustment exception and you elected not to adjust these dividends), include your foreign source qualified dividends on line 1a of the applicable Form 1116 without adjustment.

Schedule D Filers

Note. Throughout these instructions, references to Schedule D (Form 1041) are for estates and trusts only.

Adjustments to foreign qualified dividends. If you are required to file Schedule D (Form 1040 or Form 1041), you must adjust the amount of your foreign source qualified dividends that you include on line 1a of Form 1116 if one of the following applies to you.

1. You figured your tax using the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040 instructions, line 7 of that worksheet is greater than zero, and line 25 of that worksheet is less than line 26.
2. You figured your tax using the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040NR instructions, line 5 of that worksheet is greater than zero, and line 23 of that worksheet is less than line 24.
3. You figured your tax using Schedule D (Form 1041), line 27 of Schedule D is greater than zero, and line 43 of Schedule D is less than line 44.
4. You figured your tax using the Schedule D Tax Worksheet (in the Schedule D (Form 1040) instructions), line 18 of the Schedule D Tax Worksheet is greater than zero, and line 43 of the Schedule D Tax Worksheet is less than line 44.
5. You figured your tax using the Schedule D Tax Worksheet (in the Schedule D (Form 1041) instructions), line 17 of the Schedule D Tax Worksheet is greater than zero, and line 42 of the Schedule D Tax Worksheet is less than line 43.

Adjustment exception. If you qualify for the adjustment exception, you can elect not to adjust your foreign source qualified dividends. You make this election by not adjusting these dividends or your foreign capital gains (or losses). If you make this election, you must elect not to adjust **any** of your foreign source qualified dividends. You qualify for the adjustment exception if the amount of your foreign source net capital gain, plus the amount of your foreign source qualified dividends, is less than $20,000 and one of the following applies to you.

1. Line 7 of the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040 instructions or line 18 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions is less than or equal to:

   a. $230,450 if married filing jointly or qualifying widow(er),

   b. $115,225 if married filing separately,

   c. $189,300 if single, or

   d. $209,850 if head of household.

2. Line 5 of the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040NR instructions or line 18 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions is less than or equal to:

   a. $230,450 if you checked filing status box 6,

   b. $115,225 if you checked filing status box 3, 4, or 5, or

   c. $189,300 if you checked filing status box 1 or 2.

3. Line 27 of Schedule D (Form 1041) or line 17 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions is less than or equal to $9,050.

Note. Your foreign source net capital gain is the excess of your net long-term capital gain from foreign sources over your net short-term capital loss from foreign sources. Ignore any long-term capital gains you elected to include on Form 4952, line 4g, in determining your foreign source net capital gain. Ignore any qualified dividends you elected to include on Form 4952, line 4g, in determining the amount of your foreign source qualified dividends.

How to make adjustment. To adjust your foreign source qualified dividends, multiply your foreign source qualified dividends in each separate category by 0.3788 if the foreign source qualified dividends are taxed at a rate of 15%, and by 0.5051 if they are taxed at a 20% rate. Include the results on line 1a of the applicable Form 1116.

You adjust your foreign source qualified dividends taxed at the 0% rate by **not** including them on line 1a.

CAUTION: Do not adjust the amount of any foreign source qualified dividends that you elected to include on Form 4952, line 4g.

No adjustment required. If you are not required to adjust your foreign source qualified dividends (or you qualify for the adjustment exception and elect not to adjust these dividends), include on line 1a of Form 1116 the full amount of foreign source qualified dividends without adjustment.

Adjustments to foreign capital gains and losses. You must use Worksheet A, Worksheet B, or the instructions under *Capital Gains and Losses* in Pub. 514 to determine the adjustments you must make to your foreign capital gains or losses. Read the instructions below to see if you qualify to use Worksheet A or Worksheet B. If you do not qualify to use Worksheet A or Worksheet B, use the instructions under *Capital Gains and Losses* in Pub. 514 to determine the adjustments you must make.

CAUTION: Before you complete Worksheet A or Worksheet B, you must reduce each foreign source long-term capital gain by the amount of that gain you elected to include on Form 4952, line 4g. The gain you elected to include on Form 4952, line 4g, must be entered directly on line 1a of the applicable Form 1116 without adjustment.

Worksheet A. You can use Worksheet A, later, to determine the adjustments you must make to your foreign source capital gains or losses if you have foreign source capital gains or losses in no more than two separate categories and any of the following apply.

- You qualify for the adjustment exception discussed earlier under *Adjustments to foreign qualified dividends* under *Schedule D Filers* and you did not make any adjustments to your foreign qualified dividends (if any).
- Line 15 or 16 of Schedule D (Form 1040) (line 18a or 19 of Schedule D (Form 1041)) is zero or a loss.
- You figured your tax using the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040 instructions and (a) line 3 of that worksheet minus the amount on Form 4952, line 4e, that you elected to include on Form 4952, line 4g, is zero or less; (b) line 7 of that worksheet is zero; or (c) line 25 of that worksheet is equal to or greater than line 26.

- You figured your tax using the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040NR instructions and (a) line 3 of that worksheet is zero, (b) line 5 of that worksheet is zero, or (c) line 23 of that worksheet is equal to or greater than line 24.
- You figured your tax using Schedule D (Form 1041) and (a) line 27 of Schedule D is zero; (b) line 22 of Schedule D minus the amount on Form 4952, line 4e, that you elected to include on Form 4952, line 4g, is zero or less; or (c) line 43 is equal to or greater than line 44.
- You figured your tax using the Schedule D Tax Worksheet (in the Schedule D (Form 1040) instructions) and (a) line 18 is zero, (b) line 9 is zero or less, or (c) line 43 is equal to or greater than line 44.
- You figured your tax using the Schedule D Tax Worksheet (in the Schedule D (Form 1041) instructions) and (a) line 17 is zero, (b) line 9 is zero or less, or (c) line 42 is equal to or greater than line 43.

Complete Worksheet A only once, even if you have capital gains or losses in two separate categories. Keep the completed Worksheet A for your records. Do not file Worksheet A with your tax return.

Capital losses are deductible only up to $3,000 ($1,500 if married filing separately) of ordinary income.

Worksheet B. If you do not qualify to use Worksheet A, use Worksheet B, later, to determine the adjustments you must make to your foreign source capital gains or losses if:

- You have foreign source capital gains or losses in no more than two separate categories,
- You did not complete the Unrecaptured Section 1250 Gain Worksheet or the 28% Rate Gain Worksheet in the Schedule D instructions, and
- You do not have any capital gains taxed at a rate of 0% or 20%.

Complete Worksheet B only once, even if you have capital gains or losses in two separate categories. Keep the completed Worksheet B for your records. Do not file Worksheet B with your tax return.

Capital losses are deductible only up to $3,000 ($1,500 if married filing separately) of ordinary income.

Worksheet A (See instructions) *Keep for Your Records*

		Category #1	Category #2		
Specify ▶					
1. Separate category capital gain or (loss)	**1.**				
2. Foreign source capital gain net income				**2.**	
3. Capital gain net income				**3.**	
4. Total U.S. capital loss adjustment				**4.**	
5. Adjusted separate category capital gain				**5.**	
6. U.S. capital loss adjustment factor. (For each separate category, divide line 1 by line 2 and round off the result to at least four decimal places.)	**6.**				
7. U.S. capital loss adjustment. (For each separate category, multiply line 4 by line 6.)	**7.**				
8. Adjusted separate category capital gain. (For each separate category, subtract line 7 from line 1. Enter the result here and include the result on line 1a of the applicable Form 1116.)	**8.**				

Instructions for Worksheet A

Line 1. For each separate category for which you have foreign source capital gains or losses, combine your foreign source capital gains and losses in that separate category and enter the result on line 1. Show a loss on line 1 of this worksheet as a negative amount and include the loss on line 5 of the Form 1116 you are filing for that separate category.

Line 2. Combine the amounts entered on line 1. If the result is zero or less, do not complete the rest of the worksheet. Instead, for each separate category with a positive amount on line 1 of this worksheet, include that positive amount on line 1a of the Form 1116 you are filing for that separate category.

Line 3. Enter the amount from line 16 of Schedule D (Form 1040), less the portion of net capital gain you included on Form 4952, line 4g. If the result is zero or less, enter -0-.

Estates and trusts: Enter the amount from line 19 of Schedule D (Form 1041), less any amount shown on line 25 of that Schedule D. If the result is zero or less, enter -0-.

Line 4. Subtract line 3 from line 2 and enter the result on line 4. If the result is zero or less, do not complete the rest of the worksheet. Instead, for each separate category with a positive amount on line 1 of this worksheet, include that positive amount on line 1a of the Form 1116 you are filing for that separate category.

Line 5.

- If both separate categories have a positive amount on line 1, skip line 5 and go to line 6.
- If only one separate category has a positive amount on line 1, subtract line 4 from that positive amount. Enter the result here and include the result on line 1a of the Form 1116 you are filing for that separate category. Skip lines 6–8 of this worksheet.

Worksheet B (See instructions) *Keep for Your Records*

	Category #1 Specify ▶ ______		Category #2 Specify ▶ ______		
	(1) Short-Term	**(2) Long-Term (15%)**	**(3) Short-Term**	**(4) Long-Term (15%)**	**(5) Other**
1. Separate category rate group capital gain or (loss)					
2. U.S. capital loss adjustment amount					
3. Subtotal (subtract line 2 from line 1 gain amounts)					
4. Net U.S. long-term capital loss					
5. U.S. long-term capital loss adjustment					
6. Excess net U.S. long-term capital loss					
7. Long-term capital gain (or adjustment amount)					
8. Limitation percentage					
9. Long-term limitation amounts					
10. Adjustment amounts					
11. Rate differential adjustments					
12. Long-term gains					
13. Rate differential adjustment					
14. Long-term gain					
15. Adjusted separate category capital gains and losses					

Line 1. For each separate category:
- Combine your foreign source short-term capital gains and losses and enter the result in column (1) or (3).
- Combine your foreign source long-term capital gains and losses and enter the result in column (2) or (4).

Line 2. Complete the Line 2 Worksheet, later, for each column on line 1 with a gain.

Line 4. Enter your net long-term capital loss (if any) from U.S. sources. To determine this amount, subtract your long-term capital losses from U.S. sources from your long-term capital gains from U.S. sources. Enter the loss (if any) as a positive amount in column (5). If you do not have a loss, leave line 4 blank and skip lines 5 through 14.

Line 5. Combine the amounts (if any) from columns (2) and (4) on line 2. Enter the result in column (5). If you do not have any amount entered in either column, enter -0- in column (5).

Line 6. Subtract line 5 from line 4. Enter the result in column (5). If the result is zero or less, leave line 6 blank and skip lines 7 through 14 of this worksheet.

Line 7.
- If you entered an amount in either column (2) or (4) (but not both) of line 3, subtract line 6 from the amount entered in either column (2) or (4) of line 3. Enter the result in column (2) or (4) on line 7 and skip lines 8 through 12.
- If you entered amounts in both columns (2) and (4) on line 3, combine those amounts and enter the result in column (5) on line 7.

Line 8. Divide line 3, column (2) by line 7, column (5). Enter the result on line 8, column (2). Divide line 3, column (4) by line 7, column (5). Enter the result on line 8, column (4). Round off each result to at least four decimal places.

Line 9. Multiply each decimal amount on line 8 by line 6 and enter the results in the appropriate columns on line 9.

Line 10. Subtract line 9, column (2) from line 3, column (2) and enter the result on line 10, column (2). Subtract line 9, column (4) from line 3, column (4) and enter the result on line 10, column (4).

Line 11. Multiply each amount on line 10 by 0.3788 and enter the results here.

Line 12. Combine line 11, column (2) with line 9, column (2) and enter the result on line 12, column (2). Combine line 11, column (4) with line 9, column (4) and enter the result on line 12, column (4). Include the amounts on line 1a of the applicable Form 1116. Skip lines 13 and 14.

Line 13. Multiply the amount on line 7 by 0.3788 and enter the result here in the applicable column.

Line 14. Combine line 6 and line 13 and enter the result here. Include the result on line 1a of the applicable Form 1116.

Line 15.
If you have a:
- Short-term gain shown in column (1) or (3) of line 3, enter the amount of that short-term gain on line 15, column (1) or (3).
- Long-term gain shown in column (2) or (4) of line 3, and line 6 is blank, multiply the amount of each gain by 0.3788 and enter the result on line 15, column (2) or (4).
- Short-term loss in any column of line 1, complete the Line 15 Worksheet, later, for each column with a loss.
- Long-term loss in column (2) or (4) of line 1, multiply the amount of the loss by 0.3788 and enter the result on line 15 in the appropriate column.

After you have completed line 15:
- Include line 15 gain amounts on line 1a of the applicable Form 1116.
- Include line 15 loss amounts on line 5 of the applicable Form 1116.

Line 2 Worksheet (For Line 2 of Worksheet B)

(See instructions below)

Keep for Your Records

		Category #1		Category #2		
Specify ▶						
		Short-Term	Long-Term	Short-Term	Long-Term	
1. Separate category rate group gain (or loss)	**1.**					
2. Separate category gain (or loss)	**2.**					
3. Foreign source capital gain net income						**3.**
4. Capital gain net income						**4.**
5. Total U.S. capital loss adjustment						**5.**
6. Separate category adjustment	**6.**					
7. Rate Group Factor	**7.**					
8. Rate Group Adjustment	**8.**					

Instructions for Line 2 Worksheet

Line 1. Enter your gains and losses from line 1 of Worksheet B. Enter a loss as a negative amount (in parentheses).

Line 2. For each separate category, combine the amounts from line 1. Enter a loss as a negative amount (in parentheses).

Line 3. Combine the amounts from line 2 of this worksheet. If the result is zero or less, stop here. Do not enter any amount on line 2 of Worksheet B.

Line 4. Enter the amount from line 16 of Schedule D (Form 1040), less the portion of net capital gain you included on Form 4952, line 4g. If the amount entered on line 4 is zero or less, stop here. Do not continue with this worksheet or Worksheet B. Instead, complete Worksheet A.

Estates and trusts: Enter the amount from line 19 of Schedule D (Form 1041), less any amount shown on line 25 of that Schedule D. If the amount entered on line 4 is zero or less, stop here. Do not continue with this worksheet or Worksheet B. Instead, complete Worksheet A.

Line 5. Subtract line 4 from line 3 and enter the result on line 5. If the result is zero or less, stop here. Do not enter any amount on line 2 of Worksheet B.

Line 6.

- If only one separate category has a positive amount on line 2, enter the amount from line 5 on line 6 (in the column for the separate category with the positive amount on line 2).
- If both separate categories have positive amounts on line 2, divide each amount on line 2 by line 3. Multiply each result by line 5. Enter the results on line 6 in the appropriate columns.

Line 7.
For each separate category:

- If you entered an amount on line 6 and you entered positive amounts in both the short-term and long-term columns on line 1, divide each positive amount on line 1 by line 2 and enter the results in the appropriate columns.
- Leave line 7 blank if you did not enter an amount on line 6 or only one column on line 1 has a positive amount.

Line 8.
For each separate category:

- If you entered amounts on line 7, multiply each amount on line 7 by line 6. Enter the results in the appropriate columns on line 8 of this worksheet and on line 2 of Worksheet B.
- If line 7 is blank, enter the amount from line 6 in the same column on line 8 as the column that has a gain on line 1. Also, enter the amount on line 2 of Worksheet B in the appropriate column. If line 6 is blank, do not enter any amount on line 8 of this worksheet or line 2 of Worksheet B.

Line 15 Worksheet (For Line 15 of Worksheet B)

Keep for Your Records

1. Enter your net short-term capital gain (if any) from U.S. sources. To determine this amount, subtract your short-term capital losses from U.S. sources from your short-term capital gains from U.S. sources. If the result is zero or a loss, enter -0- . . . . . **1.** ______
2. If you entered a short-term gain on line 3 of Worksheet B, enter that amount here . . . . . **2.** ______
3. Add lines 1 and 2 . . . . . **3.** ______
4. Did you enter a short-term capital loss on line 1 of Worksheet B for one (but not both) of the separate categories?

   ☐ **Yes.** Complete lines 5–10 and skip the rest of this worksheet.

   ☐ **No.** Skip lines 5–10 and go to line 11.
5. Enter the short-term capital loss from line 1 of Worksheet B **(enter the loss as a positive amount)** . . . . . **5.** ______
6. Enter the gain, if any, determined on line 3. If line 3 is not a gain, enter -0- . . . . . **6.** ______
7. Subtract line 6 from line 5. If zero or a loss, enter -0- . . . . . **7.** ______
8. Multiply line 7 by 0.3788 . . . . . **8.** ______
9. Enter the smaller of line 5 or line 6 . . . . . **9.** ______
10. Add lines 8 and 9. Enter the result here and on line 15 of Worksheet B . . . . . **10.** ______
11. Is the amount on line 1 zero?

    ☐ **Yes.** Multiply each short-term loss by 0.3788. Enter the results on line 15 of Worksheet B. Skip the rest of this worksheet.

    ☐ **No.** Go to line 12.
12. Enter your short-term loss from Worksheet B, line 1, column (1) **(enter the loss as a positive amount)** . . . . . **12.** ______
13. Enter your short-term loss from Worksheet B, line 1, column (3) **(enter the loss as a positive amount)** . . . . . **13.** ______
14. Add lines 12 and 13 . . . . . **14.** ______
15. Enter the gain determined in line 1 . . . . . **15.** ______
16. Subtract line 15 from line 14 . . . . . **16.** ______

    Is the result zero or less?

    ☐ **Yes.** Skip the rest of this worksheet. Enter each short-term loss from line 1 on line 15 of Worksheet B, in the applicable column, without adjustment (that is, each short-term loss you enter on line 15 of Worksheet B will be the same as the short-term loss you entered on line 1 of Worksheet B).

    ☐ **No.** Complete lines 17–22.
17. Multiply line 16 by 0.3788 . . . . . **17.** ______
18. Add lines 15 and 17 . . . . . **18.** ______
19. Divide line 12 by line 14 . . . . . **19.** ______
20. Multiply line 19 by line 18. Enter the result here and on Worksheet B, line 15, column (1) . . . . . **20.** ______
21. Divide line 13 by line 14 . . . . . **21.** ______
22. Multiply line 21 by line 18. Enter the result here and on Worksheet B, line 15, column (3) . . . . . **22.** ______

Specific Instructions

Part I—Taxable Income or Loss From Sources Outside the United States

Part I must be completed by all filers unless specifically indicated otherwise in these instructions.

Line g—Foreign Country or U.S. Possession

Generally, if you received income from, or paid taxes to, more than one foreign country or U.S. possession, report information on a country-by-country basis on Form 1116, Parts I and II. Use a separate column in Part I and a separate line in Part II for each country or possession. If you paid taxes to more than three countries or possessions, attach additional sheets following the format of Parts I and II.

If you have passive income that is treated as general category income because it is high taxed, use a separate column in Part I. Enter "HTKO" on line g of Forms 1116 for passive category income and general category income.

If you had a foreign tax credit splitting event in a previous year and you are taking the related income into account in 2015, enter "909 income" on line g for that income instead of the country or possession name.

You do not need to report income passed through from a mutual fund or other regulated investment company (RIC) on a country-by-country basis. Total ***all*** *income, in the applicable category, passed through from the mutual fund or other RIC and enter the total in a single column in Part I. Enter "RIC" on line g. Total* ***all*** *foreign taxes passed through and enter the total on a single line in Part II for the applicable category.*

Lines 1a and 1b—Foreign Gross Income

Include income in the category checked above Part I that is taxable by the United States and is from sources within the country entered on line g. You must include income even if it is not taxable by that foreign country. Identify the type of income on the dotted line next to line 1a. Do not include any earned income excluded on Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion.

Example. If you received dividends (passive category income) and wages (general category income) from foreign sources, you must complete two Forms 1116. On one Form 1116, check box a (passive category income), enter the dividends on line 1a, and write "Dividends" on the dotted line. On the other Form 1116, check box b (general category income), enter on line 1a wages not excluded on Form 2555 or Form 2555-EZ, and write "Wages" on the dotted line. Complete Parts I, II, and III of each Form 1116. Then, complete Part IV on the Form 1116 with the larger amount entered on line 22.

If you are filing a Form 1116 that includes foreign source qualified dividends or foreign source capital gains or losses, see *Foreign Qualified Dividends and Capital Gains (Losses), earlier.*

High-taxed income. On your Form 1116 for passive category income, passive income that is treated as general category income because it is high taxed should be included on line 1a in the column for the country entered on line g. Also, enter the high-taxed income in the "HTKO" column on line 1a as a negative number. On your Form 1116 for general category income, the high-taxed income should be entered as a positive number on line 1a in the "HTKO" column.

Line 1b

You must check the box on line 1b if all of the following apply.

- The income on line 1a is compensation for services you performed as an employee.
- Your total employee compensation from both U.S. and foreign sources was $250,000 or more.
- You used an alternative basis (discussed in Pub. 514) to determine the source of the compensation entered on line 1a.

In addition, attach to Form 1116 a statement that contains the following information.

- The specific compensation income or the specific fringe benefit for which the alternative basis is used.
- For each such item, the alternative basis of allocation of source used.
- For each such item, a computation showing how the alternative allocation was computed.
- A comparison of the dollar amount of the compensation sourced within and without the United States under both the alternative basis and the time or geographical basis for determining the source.

You must keep documentation showing why the alternative basis more properly determines the source of the compensation.

Lines 2 Through 5—Deductions and Losses

You must reduce your foreign gross income on line 1a by entering on lines 2 through 5:

- Any of your deductions that definitely relate to that foreign income, and
- A ratable share of your other deductions that do not definitely relate to that foreign income, any other foreign income, or U.S. source income.

Do not enter any amounts on lines 2 through 5 for your HTKO column. Add all deductions that are definitely related or apportioned to passive income that is treated as general category income because it is high-taxed and enter the total amount of those deductions on line 6 in the HTKO column. Enter the amount as a negative number on your Form 1116 for passive category income. Enter the amount as a positive number on your Form 1116 for general category income.

Do not include:

- Deductions and losses related to exempt or excluded income, such as foreign earned income you have excluded on Form 2555 or Form 2555-EZ.
- The deduction for personal exemptions.

Special rules apply to the allocation of research and experimental expenditures. See Regulations section 1.861-17.

If the law of a U.S. state to which you pay income taxes does not specifically exempt foreign source income from tax, you may be required to make a special allocation of state taxes you paid. See Pub. 514 for more information.

Itemized deduction limit. If you must reduce the total amount of your itemized deductions on Schedule A (Form 1040), line 29 (or Form 1040NR, Schedule A, line 15), you must reduce each of the itemized deductions that are subject to the reduction by the reduction percentage before you complete lines 2, 3a, and 4a.

Exception. You do not need to figure the reduction percentage if the **entire amount** of your itemized deductions is entered on any one of the following lines: line 2, line 3a, or line 4a. Just enter your reduced itemized deductions on that line.

Figuring the reduction percentage. Use the Itemized Deductions Worksheet in the Schedule A (Form 1040) instructions or the Form 1040NR instructions to figure the reduction percentage. Divide the amount on line 9 of the worksheet (the overall reduction) by the amount on line 3 of the worksheet (total itemized deductions subject to the reduction). This is your reduction percentage. Apply this reduction percentage (expressed as a decimal rounded to at least four places) to each itemized deduction subject to the reduction to determine the amount to enter on the appropriate line of Form 1116.

Example. You are single, file Form 1040, and have an adjusted gross income of $288,250. Your itemized deductions subject to the overall reduction (line 3 of the worksheet) total $20,000. $8,000 of these deductions are definitely related to the income on Form 1116, line 1a. The other $12,000 ($20,000 – $8,000) is for real estate taxes, which are not definitely related.

The amount of the overall reduction on line 9 of the worksheet is $900. To figure the amount of the real estate taxes to include in the total for line 3a of Form 1116, divide the amount on line 9 of the worksheet ($900) by the amount on line 3 of the worksheet ($20,000). This is your reduction percentage (4.5%). You must reduce your $12,000 deduction by $540 (4.5% × $12,000). The reduced deduction of $11,460 ($12,000 – $540) is the amount to enter on line 3a of Form 1116. Make a similar computation to figure the amount of definitely related itemized deductions ($7,640) to enter on line 2.

Line 2

CAUTION *Before you complete line 2, read Itemized deduction limit, earlier.*

Enter your deductions that definitely relate to the gross income from foreign sources shown on line 1a. For example, if you are an employee reporting foreign earned income on line 1a, include on line 2 expenses such as those incurred to move to a new principal place of work outside the United States or supplies you bought for your job outside the United States.

Do not include any interest expense on line 2. See lines 4a and 4b for special rules for interest expense.

Lines 3a and 3b

Some deductions do not definitely relate to either your foreign source income or your U.S. source income. Enter on lines 3a and 3b any deductions (other than interest expense) that:

- Are not shown on line 2, and
- Are not definitely related to your U.S. source income.

Line 3a. Enter the following itemized deductions (from Schedule A (Form 1040)) on line 3a.

- Medical expenses (line 4).
- General sales taxes (line 5).
- Real estate taxes (line 6).

If you do not itemize deductions, enter your standard deduction on line 3a.

Line 3b. Enter on line 3b any other deductions that do not definitely relate to any specific type of income (for example, the deduction for alimony paid from Form 1040, line 31a).

Lines 3d and 3e

For lines 3d and 3e, gross income means the total of your gross receipts (reduced by cost of goods sold), total capital and ordinary gains (before subtracting any losses), and all other income (before subtracting any deductions).

Line 3d. Enter your gross foreign source income from the category you checked above Part I of this Form 1116. Include any foreign earned income you have excluded on Form 2555 or Form 2555-EZ but do not include any other exempt income.

If you had income from more than one country, you must enter income from only one country in each column.

If you had to adjust your foreign qualified dividends or capital gains (discussed earlier), include those amounts without regard to any adjustments.

Line 3e. Enter on line 3e in each column your gross income from all sources and all categories, both U.S. and foreign. Include any foreign earned income you have excluded on Form 2555 or Form 2555-EZ but do not include any other exempt income.

If you are a nonresident alien, include on both lines 3d and 3e your income that is not effectively connected with a trade or business in the United States.

If you had to adjust your foreign qualified dividends or capital gains (discussed earlier), include those amounts without regard to any adjustments.

Line 3f

Divide line 3d by line 3e and round off the result to at least four decimal places (for example, if your result is 0.8756782, round off to 0.8757, not to 0.876 or 0.88). Enter the result, but do not enter more than “1.”

Line 4a

If your gross foreign source income (including income excluded on Form 2555 or Form 2555-EZ) does not exceed $5,000, you can allocate all of your interest expense to U.S. source income. Otherwise, deductible home mortgage interest (including points and qualified mortgage insurance premiums) is apportioned using a gross income method. Use the Worksheet for Home Mortgage Interest—Line 4a, later, to figure the amount to enter on line 4a.

Line 4b

Other interest expense includes investment interest, interest incurred in a trade or business, and passive activity interest. If you are a U.S. citizen, resident alien, or a domestic estate, and your gross foreign source income (including any income excluded on Form 2555 or Form 2555-EZ) does not exceed $5,000, you can allocate all of your interest expense to U.S. source income. Otherwise, each type of interest expense is apportioned separately using an “asset method.” See Pub. 514 for more information.

Example. You have investment interest expense of $2,000. Your assets of $100,000 consist of stock generating U.S. source income (adjusted basis, $40,000) and stock generating foreign source income (adjusted basis, $60,000). You apportion 40% ($40,000/$100,000) of $2,000, or $800 of your investment interest, to U.S. source income and 60% ($60,000/$100,000) of $2,000, or $1,200, to foreign source income. In this example, you will enter the $1,200 apportioned to foreign source income on line 4b. You would not enter the $800 apportioned to U.S. source income on any line of Part I of Form 1116.

Line 5

If you have capital losses from foreign sources, see *Foreign Qualified Dividends and Capital Gains (Losses)*, earlier, for information on adjustments you may be required to make.

Part II—Foreign Taxes Paid or Accrued

CAUTION *See General Instructions, earlier, for descriptions of foreign taxes that are eligible for the foreign tax credit and for foreign taxes that are not eligible for the foreign tax credit.*

Generally, you can take a foreign tax credit in the tax year you paid or accrued the foreign taxes, depending on your method of accounting. If you report on the cash basis, you can choose to take the credit for accrued taxes by checking the “accrued” box in Part II. But once you choose to do this, you must credit foreign taxes in the year they accrue on all future returns.

Generally, you must enter in Part II the amount of foreign taxes, in both the foreign currency denomination(s) and as converted into U.S. dollars, that relate to the category of income checked above Part I. Taxes are related to the income if the income is included in the foreign tax base on which the tax is imposed. If the foreign tax you paid or accrued relates to more than one category of income, apportion the tax among the categories. The apportionment is based on the ratio of net foreign taxable income in each category to the total net income subject to the foreign tax. See Pub. 514 for an example.

Enter in Part II the foreign taxes that were previously suspended under section 909 and that are allowed in 2015 because the related income is taken into account in 2015. Enter “909 taxes” in column (j) instead of the date paid or accrued. Complete the other columns as appropriate.

TIP *If foreign tax paid on passive income is reported to you in U.S. dollars on a Form 1099-DIV, 1099-INT, or similar statement, you do not have to convert the amount shown into foreign currency. This rule applies whether or not you can make the election to claim the foreign tax credit without filing Form 1116 (as explained earlier). Enter “1099 taxes” in Part II, column (j), and complete columns (o) through (s) for each foreign country indicated in Part I.*

Note. If you are taking a credit for additional taxes paid or accrued as the result of an audit by a foreign taxing authority or you are filing an amended return reflecting a foreign tax refund, attach a statement to Form 1116 identifying these taxes.

Worksheet for Home Mortgage Interest —Line 4a *Keep for Your Records*

Note: *Before you complete this worksheet, read the instructions for line 4a, earlier.*

1.	Enter gross foreign source income* of the type shown on Form 1116. **Do not** enter income excluded on Form 2555 or Form 2555-EZ	**1.**	
2.	Enter gross income from all sources. **Do not** enter income excluded on Form 2555 or Form 2555-EZ	**2.**	
3.	Divide line 1 by line 2 and enter the result as a decimal (rounded to at least four places)	**3.**	
4.	Enter deductible home mortgage interest (from lines 10 through 13 of Schedule A (Form 1040))	**4.**	
5.	Multiply line 4 by line 3. Enter the result here and on the appropriate Form 1116, line 4a	**5.**	

*If you have to report income from more than one country on Form 1116, complete a separate worksheet for each country. Use only the income from that country on line 1 of the worksheet.

Part III—Figuring the Credit

Line 10

Enter the unused foreign taxes in the separate category from another tax year that are eligible to be carried forward to or back to 2015.

You can carry back 1 year and then forward 10 years any foreign tax you paid or accrued to any foreign country or U.S. possession (reduced as described under *Line 12*, later) on income in a separate category that is more than the limitation. First, apply the excess to the earliest year to which it may be carried. Then, apply it to the next earliest year, and so on. The carryback-carryforward period cannot be extended even if you are unable to take a credit in one of the intervening years.

Special rules apply to the carryback and carryforward of foreign taxes paid or accrued on foreign oil and gas income. In addition, special restrictions apply to the carryforward of pre-2009 unused oil and gas extraction taxes to years beginning after 2008. See section 907(f).

File Form 1040X or other amended return and a revised Form 1116 for the earlier tax year to which you are carrying back excess foreign taxes.

Special rules for carryforwards of pre-2007 unused foreign taxes. The foreign taxes carried forward generally are allocated to your post-2006 separate income categories to which those taxes would have been allocated if the taxes were paid or accrued in a tax year beginning after 2006. Alternatively, you can allocate unused foreign taxes in the pre-2007 separate category for passive income to the post-2006 separate category for passive category income, and you can allocate all other unused foreign taxes in the categories that were eliminated in 2007 to the post-2006 separate category for general category income.

Restrictions. You cannot carry a credit back to a tax year for which you claimed a deduction, rather than a credit, for foreign taxes paid or accrued. However, you must reduce the amount of any carryback or carryforward by the amount that you would have used had you chosen to claim a credit rather than a deduction in that year.

If, for any year, you elected to claim the foreign tax credit without filing Form

1116 (as explained earlier), the following rules apply.

- You cannot carry over unused foreign taxes paid or accrued in a year to which the election does not apply to or from any year for which you made the election.
- The carryback-carryforward period is not extended if you are unable to use a carryback or carryforward because you made the election.
- Do not reduce the carryback or carryforward by the amount you would have used in the election year if you had not made the election.

More information. See Pub. 514 for more information on carryback and carryforward provisions, including examples.

Line 12

You may have to reduce the foreign taxes you paid or accrued by the following items.

- **Taxes on income excluded on Form 2555 or Form 2555-EZ.** Reduce taxes paid or accrued by the taxes allocable to any foreign earned income excluded on Form 2555 or Form 2555-EZ. If only part of your foreign earned income is excluded, you must determine the amount of tax allocable to excluded income. To do so, multiply the foreign taxes paid or accrued on foreign earned income received or accrued during the tax year by the following fraction.

Numerator: Foreign earned income and housing amounts you excluded for the tax year minus otherwise deductible expenses (not including the foreign housing deduction) allocable to that income.

Denominator: Your total foreign earned income received or accrued during the tax year minus deductible expenses (including the foreign housing deduction) allocable to that income. However, if the foreign jurisdiction charges tax on foreign earned income and some other income (for example, earned income from U.S. sources or a type of income not subject to U.S. tax) and the taxes on the other income cannot be segregated, the denominator is the total amount of income subject to foreign tax minus deductible expenses allocable to that income.

- **Taxes on income from Puerto Rico exempt from U.S. tax.** The reduction applies if you have income from Puerto Rican sources that is not taxable on your U.S. tax return. To figure the credit, reduce your foreign taxes paid or accrued by the taxes allocable to the exempt income. See Pub. 570 for more information.
- **Taxes on income from American Samoa excluded on Form 4563.** If you are a bona fide resident of American Samoa, reduce taxes paid or accrued by any taxes attributable to income from sources in American Samoa excluded on Form 4563. For more information, see Pub. 570.
- **Taxes on combined foreign oil and gas income.** Reduce taxes paid or accrued by a portion of taxes imposed on combined foreign oil and gas income. The amount of the reduction is the amount by which your foreign oil and gas taxes exceed the amount of your combined foreign oil and gas income for the year multiplied by a fraction equal to your pre-credit U.S. tax liability (for example, the total of lines 44 and 46 on Form 1040) divided by your worldwide taxable income. You may be entitled to carry over to other years taxes reduced under this rule. See section 907(f). Combined foreign oil and gas income is the sum of foreign oil related income and foreign oil and gas extraction income. Foreign oil and gas taxes are the sum of foreign oil and gas extraction taxes and foreign oil related taxes.
- **Taxes on foreign mineral income.** Reduce taxes paid or accrued on mineral income from a foreign country or U.S. possession if you took a deduction for percentage depletion under section 613 for any part of the mineral income.
- **Reduction for failure to file Form 5471.** U.S. shareholders who control a foreign corporation must file Form 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations. If you do not file Form 5471 and furnish all of the information required by the due date of your tax return, reduce by 10% all foreign taxes that you otherwise may take into account for the foreign tax credit. You may have to make additional reductions if the failure continues. See section 6038(c) and Regulations section 1.6038-2(k) for details and exceptions.

Note. The reduction in foreign taxes is reduced by any dollar penalty imposed under section 6038(b).

- **Reduction for failure to file Form 8865.** U.S. partners who control a foreign partnership must file Form 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships. If you do not file Form 8865 and furnish all of the information required by the due date of your tax return, reduce by 10% all foreign taxes that you otherwise may take into account for the foreign tax credit. You may have to make additional reductions if the failure continues. See section 6038(c) and Regulations section 1.6038-3(k) for details and exceptions.

Note. The reduction in foreign taxes is reduced by any dollar penalty imposed under section 6038(b).

- **Reduction of taxes or credit due to international boycott operations.** In general, if you agree to participate in, or cooperate with, an international boycott, you must file Form 5713, International Boycott Report, and attach all supporting schedules. In addition, you must reduce either the total taxes available for credit or the credit otherwise allowable by your foreign taxes resulting from boycott activities. If you can figure the taxes specifically attributable to boycott operations, enter the amount on line 12. If you cannot figure the amount of taxes specifically attributable to boycott operations, multiply the credit otherwise allowable by the international boycott factor (figured on Schedule A (Form 5713), International Boycott Factor) and enter the result on Form 1116, line 29. Attach a statement to Form 1116 showing in detail how you figured the reduction.

For more information, see Form 5713 and its instructions.

- **Taxes related to a foreign tax credit splitting event.** Reduce taxes paid or accrued by any taxes paid or accrued with respect to a foreign tax credit splitting event. If there is a foreign tax credit splitting event, you may not take the foreign tax into account before the tax year in which you take the income into account. There is a foreign tax credit splitting event with respect to a foreign income tax if the related income is (or will be) taken into account by a covered person. A covered person is either of the following.

1. An entity in which you hold, directly or indirectly, at least a 10 percent ownership interest (determined by vote or value).
2. Any person who is related to you. For a list of related persons, see *Nondeductible Loss* in chapter 2 of Pub. 544.

A covered asset acquisition under section 901(m) is not a foreign tax credit splitting event under section 909.

For more information, see section 909 and the regulations under that section.

Line 13

You must adjust the foreign taxes paid or accrued if they relate to passive income that is treated as general category income because it is high-taxed. On your Form 1116 for passive category income, enter as a negative number (in parentheses) the amount of your foreign taxes that relate to that income. On your Form 1116 for general category income, enter as a positive number the amount of foreign taxes that relate to that income.

Line 15

The amount on line 15 is your taxable income (or loss), before adjustments, from sources outside the United States. If the amount on line 15 is zero or a loss, you generally have no foreign tax credit for the category of income checked above Part I of this Form 1116. However, you must complete line 16 and continue with the form even if line 15 is zero or a loss.

Line 16

You are required to increase or decrease the amount on line 15 by the following adjustments. The adjustments must be made in the order listed. If you have more than one adjustment, enter the net adjustment on line 16 and attach a detailed statement showing your computation. See Pub. 514 for more details on each of these adjustments.

The adjustments are:

1. Allocation of foreign losses. If you have a loss on line 15 of one Form 1116 and you have income on line 15 of one or more other Forms 1116, you must reduce the foreign income by a *pro rata* share of the loss before you use any remaining loss to reduce U.S. source income.

If the loss reduces foreign source income, you create, or increase the balance of, a separate limitation loss account and you must recharacterize the income you receive in the loss category in later years. See *Recapture of separate limitation loss accounts*, later. In situations where the loss to be allocated exceeds foreign income in other categories, the excess reduces U.S. source income (as modified under *Capital losses* next), you create, or increase the balance in, an overall foreign loss account, and for later years you must follow the rules described under *Recapture of prior year overall foreign loss accounts*, later. If the loss in one category reduces foreign source income in another category and that second category has a separate limitation loss account with respect to the first category, then the two offsetting separate limitation loss account balances are netted for purposes of determining the amount of income in either category that is subject to recharacterization under *Recapture of separate limitation loss accounts*, later.

Capital losses. In determining your U.S. source income, reduce the amount of any capital losses from U.S. sources by the amount you entered on line 4 of Worksheet A or line 5 of the Line 2 Worksheet for Worksheet B. If you have capital losses from U.S. sources and you did not use either Worksheet A or Worksheet B, see Pub. 514 to determine your U.S. source income.

Example. For 2015, you completed three Forms 1116. The first had a loss from general category income of $2,000 on line 15, the second had passive category income of $4,000 on line 15, and the third had income of $1,000 from the certain income re-sourced by treaty category on line 15. You must allocate the $2,000 loss between the passive category income and the certain income re-sourced by treaty category in the same proportion as each category's income bears to the total foreign income.

The amount of the loss that would reduce passive category income would be 80% ($4,000/$5,000) of the $2,000 loss or $1,600. Include the $1,600 (in parentheses) on line 16 of the passive category income Form 1116. Assuming you have no other line 16 adjustments, enter $2,400 ($4,000 – $1,600) on line 17 of that form.

The amount of the loss that would reduce the certain income re-sourced by treaty would be 20% ($1,000/$5,000) of the $2,000 loss or $400. Include the $400 (in parentheses) on line 16 of the certain income re-sourced by treaty Form 1116. Assuming you have no other line 16 adjustments, enter $600 ($1,000 – $400) on line 17 of that form.

In this case, all of the $2,000 loss was allocated between the foreign source passive category income and the certain income re-sourced by treaty category, and no reduction was made to U.S. source income.

If you receive general category income in a later year, you must recharacterize all or part of that income as passive category income and certain income re-sourced by treaty in that later year. See the example under *Recapture of separate limitation loss accounts*, later.

2. Allocation of U.S. losses. If you have a net loss from U.S. sources, proportionately allocate that loss among the separate categories of your foreign income. Reduce the income on line 15 (adjusted by any allocation of losses, as described under *Allocation of foreign losses* in these line 16 instructions) by including (in parentheses) on line 16 the allocable portion of any U.S. loss. In later years, you will be allowed to treat part of your U.S. source income as foreign source income.

A U.S. loss includes a rental loss on property located in the United States. If you have any qualified dividends or capital gains (including capital gain distributions) or losses for the tax year and you are required to make any adjustments to those amounts, as explained under *Foreign Qualified Dividends and Capital Gains (Losses)*, earlier, or in the instructions for line 18, the amount of your U.S. loss is the excess of:

a. The total of the amounts entered on line 15 for each Form 1116 you are filing, over

b. The amount entered on line 18 of the Form 1116.

You allocate the net loss to a separate category of income by multiplying the net loss by a fraction. The numerator of the fraction is the foreign source income in a separate category and the denominator is the total foreign source income in all separate categories.

3. Recapture of prior year overall foreign loss accounts. If you had an overall foreign loss in a prior year that offset U.S. source income, a part of your foreign income (in the same category as the loss) is recharacterized as U.S. source income in each following tax year.

The part of your total foreign income subject to recharacterization is the lesser of the following.

a. The total amount of maximum potential recapture in all overall foreign loss accounts. The maximum potential recapture in any account for a category is the lesser of:

i. The current year taxable income from foreign sources in that category (the amount from line 15, less any adjustment for allocation of losses, as described earlier under *Allocation of foreign losses* and *Allocation of U.S. losses* for that category); or

ii. The balance in the overall foreign loss account for that category.

b. 50% (or more, if you choose) of your total taxable income from foreign sources.

If the total foreign income subject to recharacterization is the amount described in **a**, earlier, then for each separate category the recapture amount is the maximum potential recapture amount for that category. If the total foreign income subject to recharacterization is the amount described in **b** above, then for each separate category the recapture amount is computed by multiplying the total recapture amount by the following fraction:

$$\frac{\text{Maximum potential recapture amount for the overall foreign loss account in the separate category}}{\text{Total amount of maximum potential recapture in all overall foreign loss accounts}}$$

Reduce the amount on line 15 by including (in parentheses) on line 16 the amount of the recapture for the category checked above Part I as determined above. Be sure to attach your computation. If you elect to recapture more of an overall foreign loss than is required (**b** above), show in your computation the percentage of taxable income recharacterized and the dollar amount recharacterized.

Attach a statement to Form 1116 showing the balance in each separate category overall foreign loss account. See Regulations section 1.904(f)-1(b) for more information.

Dispositions of certain property. If you generated foreign source gain in the same category as the overall foreign loss on a disposition of property that was used predominantly in a foreign trade or business and that generated foreign source income in the same category as the overall foreign loss, then the gain on the disposition may be subject to recharacterization as U.S. source income to the extent of 100% of your foreign source taxable income. This is true whether or not you would otherwise recognize gain on the disposition. See section 904(f)(3).

The above rule also generally applies to a gain on the disposition of stock in a controlled foreign corporation (CFC), if you owned more than 50% (by vote or value) of the stock right before you disposed of it. See section 904(f)(3)(D) for more information and exceptions.

Reduce line 15 by including (in parentheses) on line 16 the smallest of (a) the amount of the gain not recaptured above, (b) the remaining amount of the overall foreign loss not recaptured in earlier years or in the current year, or (c) the amount from line 15 (less any adjustment for allocation of losses, as described under *Allocation of foreign losses* and under *Allocation of U.S. losses* in these line 16 instructions, and any adjustment for any recapture above). See Pub. 514 if you disposed of property described above and you recognized foreign source gain in a different category than the overall foreign loss, you recognized U.S. source gain, or you did not recognize gain.

4. Recapture of separate limitation loss accounts. If, in a prior tax year, you reduced your foreign taxable income in the category checked above Part I by a *pro rata* share of a loss from another category, you must recharacterize in 2015 all or part of any income you receive in 2015 in that loss category. If you have separate limitation loss accounts in the loss category relating to more than one other category and the total balances in those loss accounts exceed the income you receive in 2015 in the loss category, then income in the loss category is recharacterized as income in those other categories in proportion to the balances of the separate limitation loss accounts for those other categories. You recharacterize the income by:

- Increasing the amount on line 15 (adjusted by any of the other adjustments previously mentioned in these line 16 instructions) of the Form 1116 for each of the separate categories, other than the loss category, previously reduced by including on line 16 any recharacterized income; and
- Decreasing the amount on line 15 (adjusted by any of the other adjustments previously mentioned in these line 16 instructions) of the Form 1116 for the loss category by including on line 16 the amount of recharacterized income as a negative number (in parentheses).

Example. Using the facts in the example under *Allocation of foreign losses*, earlier, in the next year (2016), you have $5,000 of general category income, $3,000 of passive category income, and $500 of certain income re-sourced by treaty. Because $1,600 of the general category income loss was used to reduce your passive category income in 2015, $1,600 of your 2016 general category income must be recharacterized as passive category income. Similarly, $400 of the general category income must be recharacterized as certain income re-sourced by treaty. On your 2016 Form 1116 for passive category income, you would include $1,600 on line 16. On your 2016 Form 1116 for certain income re-sourced by treaty, you would include $400 on line 16. On your 2016 Form 1116 for general category income, you would include ($2,000) on line 16.

TIP *Recharacterizing income from a separate category does not result in recharacterizing any tax.*

5. Recapture of overall domestic loss accounts. If you have an overall domestic loss for any tax year beginning after 2006, you create, or increase the balance in, an overall domestic loss account and you must recharacterize a portion of your U.S. source taxable income as foreign source taxable income in succeeding years for purposes of the foreign tax credit.

The part that is treated as foreign source taxable income for the tax year is the smaller of:

- The total balance in your overall domestic loss account in each separate category (less amounts recaptured in earlier years), or
- 50% of your U.S. source taxable income for the tax year.

You must establish and maintain separate overall domestic loss accounts for each separate category in which foreign source income is offset by the domestic loss. The balance in each overall domestic loss account is the amount of the overall domestic loss subject to recapture. The recharacterized income is allocated among and increases foreign source income in separate categories in proportion to the balances of the overall domestic loss accounts for those separate categories. You increase the amount on line 15 (as adjusted by any of the other adjustments previously mentioned in these line 16 instructions) of the Form 1116 for each of the separate categories to which the recharacterized income is allocated.

Overall domestic loss defined. In a tax year in which you choose to claim the foreign tax credit, the overall domestic loss is the domestic loss for that tax year to the extent it offsets foreign source taxable income for that tax year or for any preceding tax year (in which you choose to claim the foreign tax credit) because of a carryback. If you do not choose to claim the foreign

Worksheet for Line 18 (Worldwide Qualified Dividends and Capital Gains)

Keep for Your Records

Caution: *See the instructions for Line 18 below before starting this worksheet.*

1. **Individuals:** Enter the amount from Form 1040, line 41. If you are a nonresident alien, enter the amount from Form 1040NR, line 39. **Estates and trusts:** Enter taxable income without the deduction for your exemption			1. _______
2. Enter your worldwide 28% gains (see instructions)	2. _______		
3. Multiply line 2 by 0.2929	3. _______		
4. Enter your worldwide 25% gains (see instructions)	4. _______		
5. Multiply line 4 by 0.3687	5. _______		
6. Enter your worldwide 20% gains and qualified dividends (see instructions)	6. _______		
7. Multiply line 6 by 0.4949	7. _______		
8. Enter your worldwide 15% gains and qualified dividends (see instructions)	8. _______		
9. Multiply line 8 by 0.6212	9. _______		
10. Enter your worldwide 0% gains and qualified dividends (see instructions)	10. _______		
11. Add lines 3, 5, 7, 9, and 10			11. _______
12. Subtract line 11 from line 1. Enter the result here and on Form 1116, line 18			12. _______

tax credit for a tax year, the overall domestic loss is the domestic loss for that tax year to the extent it offsets foreign source taxable income for any preceding tax year (in which you chose to claim the foreign tax credit) because of a carryback.

Domestic loss. A domestic loss is the amount by which the U.S. source gross income for the tax year is exceeded by the sum of the expenses, losses, and other deductions properly allocated or apportioned to that income. Determine this amount by taking into account any net operating loss carried forward from a prior tax year (but not any loss carried back). If you have any capital gains or losses, take them into account after any adjustments required under *Foreign Qualified Dividends and Capital Gains (Losses)*, earlier.

Line 18

If you have qualified dividends or capital gains, you may be required to make adjustments to those qualified dividends and gains before you take those amounts into account on line 18.

Individuals Who Completed a Qualified Dividends and Capital Gain Tax Worksheet

If you completed the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for your tax return, you must use the Worksheet for Line 18 to figure the amount to enter on line 18 if:

1. You file Form 1040 and

a. Line 7 of your Qualified Dividends and Capital Gain Tax Worksheet is greater than zero, and

b. Line 25 of your Qualified Dividends and Capital Gain Tax Worksheet is less than line 26 of that worksheet; or

2. You file Form 1040NR and

a. Line 5 of your Qualified Dividends and Capital Gain Tax Worksheet is greater than zero, and

b. Line 23 of your Qualified Dividends and Capital Gain Tax Worksheet is less than line 24 of that worksheet.

Adjustment exception. If you qualify for the adjustment exception, you can elect not to adjust your qualified dividends and capital gains. You make this election by not completing the Worksheet for Line 18. You must make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you chose not to make any adjustments to those amounts when you completed lines 1a and 5. You cannot make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you made adjustments to those amounts when you completed lines 1a and 5. In this case, complete the Worksheet for Line 18.

If you are not required to complete the Worksheet for Line 18 or you qualify for the adjustment exception and elect not to adjust your qualified dividends and capital gains, enter on line 18 of Form 1116 your taxable income without the deduction for your exemption (for example, the amount from Form 1040, line 41).

Adjustment exception for Form 1040 filers. You qualify for the adjustment exception if you meet both of the following requirements.

1. Line 7 of the Qualified Dividends and Capital Gain Tax Worksheet does not exceed:

- $230,450 if married filing jointly or qualifying widow(er),
- $115,225 if married filing separately,
- $189,300 if single, or
- $209,850 if head of household.

2. The amount of your foreign source net capital gain, plus the amount of your foreign source qualified dividends, is less than $20,000. For this purpose, ignore any capital gain distributions or qualified dividends you elected to include on Form 4952, line 4g.

Adjustment exception for Form 1040NR filers. You qualify for the adjustment exception if you meet both of the following requirements.

1. Line 5 of the Qualified Dividends and Capital Gain Tax Worksheet does not exceed:

a. $230,450 if you checked filing status box 6;

b. $115,225 if you checked filing status box 3, 4, or 5; or

c. $189,300 if you checked filing status box 1 or 2.

2. The amount of your foreign source net capital gain, plus the amount of your foreign source qualified dividends, is less than $20,000.

TIP *Your foreign source net capital gain is the excess of your foreign source net long-term capital gain over your foreign source net short-term capital loss.*

Completing the Worksheet for Line 18. If you do need to complete the Worksheet for Line 18, do the following.

Lines 2 through 5. Skip these lines.

Line 6. Enter the amount from:
- Line 22 of the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040 instructions, or
- Line 20 of the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040NR instructions.

Line 8. Enter the amount from:
- Line 19 of the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040 instructions, or
- Line 17 of the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040NR instructions.

Line 10. Enter the amount from:
- Line 11 of the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040 instructions, or
- Line 9 of the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040NR instructions.

Complete all other lines as instructed on the worksheet.

Estates and Trusts That Completed a Qualified Dividends Tax Worksheet or Schedule D

If you completed the Qualified Dividends Tax Worksheet in the instructions for Form 1041 or you completed Part V of Schedule D (Form 1041), you must use the Worksheet for Line 18, earlier, to figure the amount to enter on line 18 if:

1. You figured your tax using the Qualified Dividends Tax Worksheet, line 5 of that worksheet is greater than zero, and line 21 of that worksheet is less than line 22; or

2. You figured your tax using Part V of Schedule D (Form 1041), line 27 of Schedule D is greater than zero, and line 43 of Schedule D is less than line 44.

Adjustment exception. If you qualify for the adjustment exception, you can elect not to adjust your qualified dividends and capital gains. You make this election by not completing the Worksheet for Line 18. You must make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you chose not to make any adjustments to those amounts when you completed lines 1a and 5. You cannot make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you made adjustments to those amounts when you completed lines 1a and 5. In this case, complete the Worksheet for Line 18. You qualify for the adjustment exception if:

1. Line 5 of the Qualified Dividends Tax Worksheet or line 27 of Schedule D (Form 1041) does not exceed $9,050, and

2. The amount of your foreign source net capital gain, plus the amount of your foreign source qualified dividends, is less than $20,000. For this purpose, ignore any foreign source qualified dividends or capital gains that you elected to include on Form 4952, line 4g.

TIP *Your foreign source net capital gain is the excess of your foreign source net long-term capital gain over your foreign source net short-term capital loss.*

If you are not required to complete the Worksheet for Line 18 or you qualify for the adjustment exception and elect not to adjust your qualified dividends and capital gains, enter on line 18 of Form 1116 the estate's or trust's taxable income without the deduction for its exemption.

Completing the Worksheet for Line 18. If you do need to complete the Worksheet for Line 18, do the following.

Lines 2 through 5. Skip these lines.

Line 6. Enter the amount from line 18 of the Qualified Dividends Tax Worksheet or line 40 of Schedule D.

Line 8. Enter the amount from line 14 of the Qualified Dividends Tax Worksheet or line 36 of Schedule D.

Line 10. Enter the amount from line 8 of the Qualified Dividends Tax Worksheet or line 30 of Schedule D.

Complete all other lines as instructed on the worksheet.

Taxpayers Who Completed the Schedule D Tax Worksheet

If you figured your tax using the Schedule D Tax Worksheet (in the Schedule D (Form 1040) instructions or in the Schedule D (Form 1041) instructions), you may have to use the Worksheet for Line 18 to figure the amount of tax to enter on line 18 of Form 1116.

Form 1040 and 1040NR filers. You must use the Worksheet for Line 18 to figure the amount of tax to enter on line 18 of Form 1116 if:
- Line 18 of the Schedule D Tax Worksheet is greater than zero, and
- Line 43 of the Schedule D Tax Worksheet is less than line 44.

Form 1041 filers. You must use the Worksheet for Line 18 to figure the amount of tax to enter on line 18 of Form 1116 if:
- Line 17 of the Schedule D Tax Worksheet is greater than zero, and
- Line 42 of the Schedule D Tax Worksheet is less than line 43.

Adjustment exception. If you qualify for the adjustment exception, you can elect not to adjust your qualified dividends and capital gains. You make this election by not completing the Worksheet for Line 18. You must make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you chose not to make any adjustments to those amounts when you completed lines 1a and 5. You cannot make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you made adjustments to those amounts when you completed lines 1a and 5. In this case, complete the Worksheet for Line 18. You qualify for the adjustment exception if:

1. The amount of your foreign source qualified dividends, plus the amount of your foreign source net capital gain, is less than $20,000; and

2. Line 18 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions is less than or equal to:

- $230,450 if married filing jointly or qualifying widow(er),
- $115,225 if married filing separately,
- $189,300 if single, or
- $209,850 if head of household

(or, for trusts and estates, line 17 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions is less than or equal to $9,050).

TIP *Your foreign source net capital gain is the excess of your foreign source net long-term capital gain over your foreign source net short-term capital loss. Ignore any foreign source qualified dividends or capital gains that you elected to include on Form 4952, line 4g, in determining the amount of your foreign source qualified dividends and net capital gain.*

If you are not required to complete the Worksheet for Line 18 or you qualify for the adjustment exception and elect not to adjust your qualified dividends and capital gains, enter on line 18 of Form 1116 your taxable income without the deduction for your exemption (for example, the amount from Form 1040, line 41).

If you do need to complete the Worksheet for Line 18, do the following.

Line 2. Enter the amount (if any) from line 40 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions or line 39 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions.

Line 4. Enter the amount (if any) from line 37 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions or line 36 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions.

Line 6. Enter the amount (if any) from line 31 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions or line 30 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions.

Line 8. Enter the amount (if any) from line 28 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions or line 26 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions.

Line 10. Enter the amount (if any) from line 20 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions or line 19 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions.

Complete all other lines as instructed on the worksheet.

Line 20

If you are completing line 20 for separate category **e** (lump-sum distributions), enter the amount from line 5 of the Worksheet for Lump-Sum Distributions, earlier.

Do not complete line 20 for separate category **c** (section 901(j) income), discussed earlier.

For all other applicable categories, complete line 20 as follows.

Form 1040 filers. Enter the total of lines 44 and 46 from Form 1040, less any tax included on line 44 from Form 4972.

Form 1040NR filers. Enter the total of lines 42 and 44 from Form 1040NR, less any tax included on line 42 from Form 4972.

Form 1041 filers. Enter the amount from Form 1041, Schedule G, line 1a.

Line 22

The maximum foreign tax credit you can claim in the current year is generally limited to the allocated amount of U.S. tax imposed on the foreign income, or the actual amount of foreign tax paid or accrued on the foreign income (after reductions required on line 12), whichever is less. However, see *Foreign Taxes Eligible for a Credit*, earlier, for additional information.

If the amount on line 21 is smaller than the amount on line 14, see Pub. 514 for more information on carryback and carryforward provisions, including examples.

Part IV— Summary of Credits From Separate Parts III

Complete lines 23 through 26 in Part IV only if you must complete more than one Form 1116 because you have more than one of the categories of income listed above Part I.

Complete Part IV on only one Form 1116 (the one with the largest amount entered on line 22) to summarize the credits you figured on all of your Forms 1116. However, see *Exception* below. Enter the credits from line 22 of all of your Forms 1116 on lines 23 through 26 of the Form 1116 with the largest amount entered on line 22 to summarize your credits. File the other Forms 1116 as attachments.

Exception. If you completed a Form 1116 for category **e** (lump-sum distributions) or **c** (section 901(j) income), do **not** use Part IV of that Form 1116 as your summary.

Line 28

Enter the smaller of line 20 or line 27.

Note. Generally, line 27 will exceed line 20 only if you have U.S. capital gains or qualified dividends that are subject to the capital gain rate differential (figured in the Worksheet for Line 18, earlier).

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