



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

## Partners' Distributive Share Items—International Partner's Share of Income, Deductions, Credits, etc.—International

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

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### Future Developments

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

### What's New

Schedules K-2 and K-3 are new for the 2021 tax year. These schedules replace, supplement, and clarify the former line 16, *Partners' Distributive Share Items, Foreign Transactions*, of Schedule K, Form 1065, and line 16, *Foreign Transactions*, of Schedule K-1 (Form 1065). Schedules K-2 and K-3 also replace, supplement, and clarify reporting of certain amounts formerly reported on Form 1065, Schedule K, line 20c, *Other items and amounts*, and Schedule K-1, Part III, line 20, *Other information*. The new schedules assist partnerships in providing partners with the information necessary for the partners to complete their returns with respect to the international tax provisions of the Internal Revenue Code. For example, the new Schedule K-3 provides information necessary for corporate and individual partners to figure their foreign tax credit on Form 1118, Foreign Tax Credit—Corporations, and Form 1116, Foreign Tax Credit (Individual, Estate or Trust), respectively.

### General Instructions

The Instructions for Form 1065 and Instructions for Schedule K-1 (Form 1065) generally apply to Schedules K-2 and K-3. This instruction provides additional information needed to complete Schedules K-2 and K-3.

### Purpose of Schedules K-2 and K-3

Schedule K-2 is an extension of Schedule K of Form 1065 and is used to report items of international tax relevance from the operation of a partnership.

Schedule K-3 is an extension of Schedule K-1 (Form 1065) and is generally used to report to partners their

share of the items reported on Schedule K-2. Partners must include the information reported on Schedule K-3 on their tax or information returns.

### Who Must File

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

Any partnership required to file Form 1065 and that has items relevant to the determination of the U.S. tax or certain withholding tax or reporting obligations of its partners under the international provisions of the Internal Revenue Code must complete the relevant parts of Schedules K-2 and K-3. See each part and section for a more detailed description of who must file each part and section. Penalties may apply for filing Form 1065 without all required information or for furnishing Schedules K-3 to partners without all required information. The penalties that apply with respect to Form 1065 and Schedule K-1 apply with respect to Schedules K-2 and K-3, respectively. See *Penalties* in the Instructions for Form 1065.

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

**Note.** A partnership is only required to complete the relevant portions of Schedules K-2 and K-3, as applicable. For example, if the partnership does not own (within the meaning of section 958) stock of a foreign corporation other than solely by reason of applying section 318(a)(3) (providing for downward attribution) as provided in section 958(b), it is not required to complete Schedules K-2 and K-3, Parts V, VI, VII, and VIII.

**Note.** Schedules K-2 and K-3 consist of the most common international tax provisions of the Internal Revenue Code. However, not all provisions are specifically identified on these schedules. To the

extent that an international provision is impacted and is not otherwise specifically identified, the partnership should check box 12 on Schedule K-2, Part I, and Schedule K-3, Part I, and attach a statement to both Schedules K-2 and K-3 (for distributive share).

## When and Where To File

Attach Schedules K-2 and K-3 to the partnership's Form 1065 and file both by the due date (including extensions) for that return.

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

See the Instructions for Form 1065 for requirements with respect to recordkeeping.

See the Instructions for Form 1065 concerning amendments or adjustments to Schedules K-2 and K-3.

## Computer-Generated Schedules K-2 and K-3

Generally, all computer-generated forms must receive prior approval from the IRS and are subject to an annual review. However, see the *Exception* below. Requests for approval may be submitted electronically to [substituteforms@irs.gov](mailto:substituteforms@irs.gov), or requests may be mailed to:

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

**Exception.** If a computer-generated Schedule K-2 or K-3 conforms to and does not deviate from the official form and schedules, it may be filed without prior approval from the IRS.

**Important.** Be sure to attach the approval letter to a computer-generated Schedule K-2 or K-3. However, if the computer-generated form is identical to the IRS prescribed form, it does not need to go through the approval process, and an attachment is not necessary.

Every year, the IRS issues a revenue procedure to provide guidance for filers of computer-generated forms. In addition, every year the IRS issues Pub. 1167, General Rules and Specifications for Substitute Forms and Schedules, which reprints the most recent applicable revenue procedure. Pub. 1167 is available at [IRS.gov/irb/2020-53\\_IRB#Rev-Proc-2020-55](https://www.irs.gov/irb/2020-53_IRB#Rev-Proc-2020-55). The procedures relevant to Form 1065 and Schedule K-1 (Form 1065) apply for purposes of Schedules K-2 and K-3.

## How To Complete Schedules K-2 and K-3

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

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

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

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

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

**Part III of Schedule K-2 (and Part III of Schedule K-3).** Used to report information necessary for the partner to determine the allocation and apportionment of research and experimental (R&E) expense, interest expense, and the foreign-derived intangible income (FDII) deduction for the foreign tax credit limitation. Also used to report foreign taxes paid or accrued by the partnership and the partner's distributive share of such taxes. Also used to report income adjustments under section 743(b) by source and separate category. Partners will use the information to figure and claim a foreign tax credit on Form 1116 or 1118.

**Part IV of Schedule K-2 (and Part IV of Schedule K-3).** Used to report the information necessary for the partner to determine its section 250 deduction with respect to foreign-derived intangible income (FDII). Partners will use the information to claim and figure a section 250 deduction with respect to FDII on Form 8993, Section 250 Deduction for Foreign-Derived Intangible Income (FDII) and Global Intangible Low-Taxed Income (GILTI).

**Part V of Schedule K-2 (and Part V of Schedule K-3).** Used to report

information the partner needs, in combination with other information known to the partner, to determine the amount of each distribution from a foreign corporation that is treated as a dividend or excluded from gross income because the distribution is attributable to previously taxed earnings and profits (PTEP) in the partner's annual PTEP accounts with respect to the foreign corporation, and the amount of foreign currency gain or loss on the PTEP that the partner is required to recognize under section 986(c).

Partners will report the dividends and foreign currency gain or loss on Forms 1040 or 1120. If eligible, partners will also use this information to figure and claim a dividends received deduction under section 245A on Form 1120. Partners will also use the information to figure and claim a foreign tax credit on Form 1116 or 1118.

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

**Part VII of Schedule K-2 (and Part VII of Schedule K-3).** Used to provide information needed by partners to complete Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, and to provide partners with information to determine income inclusions with respect to the passive foreign investment company (PFIC).

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

**Part IX of Schedule K-2 (and Part IX of Schedule K-3).** Used to provide information for the partner to figure its base erosion and anti-abuse tax (BEAT). Partners will use the information to complete Form 8991, Tax on Base Erosion Payments of Taxpayers With Substantial Gross Receipts.

**Part X of Schedule K-2 (and Part X of Schedule K-3).** Used to provide information for the partner to figure its tax liability with respect to income effectively connected with a U.S. trade or business

(ECI) or with respect to fixed, determinable, annual, or periodical (FDAP) income, partners will use the information to figure and report any U.S. tax liability on Forms 1040-NR, U.S. Nonresident Alien Income Tax Return, and 1120-F, U.S. Income Tax Return of a Foreign Corporation, or other applicable forms.

**Part XI of Schedule K-2 (and Part XI of Schedule K-3).** Used to provide certain information to U.S. and foreign partners with respect to section 871(m) by a publicly traded partnership that satisfies certain other requirements. Certain partners will use the information to determine their U.S. withholding tax obligations and to figure and report any U.S. tax liability on Forms 1042 and 1042-S.

#### **Part XII. Reserved.**

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

## Specific Instructions



If the information required in a given section exceeds the space provided within that section, **do not** write "See attached" in the section or leave the section blank. Instead, complete all entry spaces in the section and attach the remaining information on additional sheets. For all attachments include the part, section, line number, and column of the relevant portion of Schedule K-2 and Schedule K-3. The additional sheets must conform with the IRS version of that section.

### Schedule K-2, Identifying Information

At the top of each new page, enter the name of the partnership as it appears on Form 1065. At the top of each new page, enter the EIN of the partnership as it appears on the Form 1065.

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

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

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

If the "Yes" box is checked, provide the partnership's qualified intermediary employer identification number (QI-EIN).

**Item C—Part applicability.** Check the "Yes" box to indicate the applicable parts of Schedule K-2 and Schedule K-3. Complete each applicable part.

Check the "No" box to indicate the inapplicable parts of Schedule K-2 and Schedule K-3. Do not complete the inapplicable parts.

### Schedule K-3, Identifying Information

**Items A and B.** Items A and B should be the same as reported on Schedule K-1, Part I, Items A and B.

**Items C and D.** Items C and D should be the same as reported on Schedule K-1, Part II, Items E and F.

**Item E.** Item E should correspond to Schedule K-2, Identifying Information, Item C.

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

#### Notes.

- Certain partners will use the information reported in the attachments with respect to boxes 1 through 5 and 10 to claim and figure a foreign tax credit on Form 1116 or 1118.
- Certain partners will also use the information reported in the attachments with respect to box 6 to prepare their tax returns (Forms 1040, 1120, 1040-NR, and 1120-F, as applicable) by taking into account that under section 267A they are not allowed deductions for the amounts listed in the statement with respect to box 6.
- Certain partners will use the information reported in attachments with respect to boxes 7 through 9 to identify any international tax information reporting forms or other international tax forms that may impact the partners' tax returns.
- Certain partners may use the information reported in attachments with respect to boxes 7 and 11 to determine any dual consolidated losses which may not be deducted on Form 1120.

This part is used to report information for international tax items not reported

elsewhere on the Schedule K-2. Check the box to indicate whether any of the following international tax items are applicable in the tax year. If applicable, attach statements, as described below, to the Schedule K-2. If applicable, the partnership must also complete Schedule K-3, Part I, and include with the Schedule K-3 the attachment(s) as described below with the partner's distributive share of the amounts.

#### Box 1. Gain on personal property sale.

In general, income from the sale of personal property is sourced according to the residence of the seller. See section 865. For sourcing purposes, personal property sold by the partnership is treated as sold by the partners. See section 865(i)(5). A U.S. citizen or resident alien individual with a tax home (as defined in section 911(d)(3)) in a foreign country is treated as a nonresident with respect to the sale of personal property only if an income tax of at least 10% of the gain derived from the sale is actually paid to a foreign country with respect to that gain. See section 865(g). In addition, if a U.S. resident maintains an office or other fixed place of business in a foreign country, income from the sale of personal property attributable to such office or other fixed place of business is foreign source only if an income tax of at least 10% of the income from the sale is actually paid to a foreign country with respect to such income.

If the partnership has income from the sale of personal property (other than inventory, depreciable personal property, and certain intangible property excepted from the general rule of section 865(a)), it must check box 1 and attach a statement to Schedule K-2 and Schedule K-3 (for distributive share) reflecting all the information shown in *Table 1, Information on Personal Property Sold*. Do not combine sales of property. Each item of property sold must be listed separately with the information shown in *Table 1*. For column (g), enter the two-letter code from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes). Do not enter "various" or "OC" for the country code. If the property sale is taxed by more than one country, complete a separate line for that country, but indicate in some manner (for example, a footnote) that the property entered on both lines is the same property.

**Box 2. Foreign oil and gas taxes.** A separate foreign tax credit limitation is applied with respect to foreign oil and gas taxes. See section 907(a) and Regulations section 1.907(a)-1 for details. If the partnership has such taxes, it must check box 2 and attach a completed Schedule I (Form 1118) to the Schedule K-2 and Schedule K-3 (with the partner's distributive share). The partnership need not complete Form 1118, Schedule I, Part



I, column 12; Part II, lines 2 through 4; or Part III, lines 1 and 3. The partnership must attach Schedule I (Form 1118) even if there are no corporate partners because the limitation applies to individuals eligible to claim a foreign tax credit.

**Note.** The partnership attaches a partially completed Schedule I (Form 1118) so that the partner has the information it needs to complete Schedule I (Form 1118) or Form 1116. The partnership is not attaching Schedule I (Form 1118) as a form required to be filed by the partnership for purposes of the partnership determining creditable taxes because a partnership cannot claim a foreign tax credit.

**Box 3. Splitter arrangements.** Foreign taxes with respect to a foreign tax credit splitting event are suspended until the related income is taken into account by the taxpayer. See section 909. There is a foreign tax credit splitting event with respect to foreign taxes of a payor if in connection with a splitter arrangement the income is or will be taken into account by a covered person. See Regulations section 1.909-2(a). A covered person, as defined in Regulations section 1.909-1(a)(4), includes, for example, any entity in which the payor holds, directly or indirectly, at least a 10% ownership interest (determined by vote or value). A payor, as defined in Regulations section 1.909-1(a)(3), includes, for example, a person that takes foreign income taxes paid or accrued by a partnership into account pursuant to section 702(a)(6).

The partnership must report foreign taxes that are potentially suspended on Schedule K-2, Part III, Section 4, line 2E, and each partner's share of such taxes on Schedule K-3, Part III, Section 4, line 2E. A partnership may not be able to determine whether taxes are suspended and whether related income is taken into account. However, where the partnership is able to determine that taxes are potentially suspended, or potentially unsuspended, it must report such taxes and the information requested in these instructions for box 3. For example, where a partnership owns a reverse hybrid and the foreign country assesses tax on the

partnership for income earned by the reverse hybrid, the partnership should report such taxes as potentially suspended taxes.

Report foreign taxes that are potentially suspended on Schedule K-2, Part III, Section 4, line 2E, and each partner's share of such taxes on Schedule K-3, Part III, Section 4, line 2E.

Check box 3 and attach a statement to Schedule K-2 and Schedule K-3 that includes the following for each splitter arrangement in which the partnership participates that would qualify as a splitter arrangement under section 909 if one or more partners are covered persons with respect to an entity that took into account related income from the arrangement.

**Section 1 of attached statement—Potentially suspended taxes.**

1. Explanation of the splitter arrangement (for example, reverse hybrid owned by partnership).
2. Amount of taxes paid or accrued by the partnership in connection with the splitter arrangement.
3. Amount of related income on which such taxes were paid or accrued.
4. The two-letter code for the country to which the taxes were paid or accrued from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes). Do not enter "various" or "OC" for the country code.
5. The separate category and source of income to which the taxes are assigned if determinable by the partnership.

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

1. Origin year of the splitter arrangement.
2. Explanation of the splitter arrangement (for example, reverse hybrid owned by partnership).
3. Amount of taxes paid or accrued by the partnership in connection with the

splitter arrangement in the origin year of the splitter arrangement.

4. Amount of related income on which such taxes were paid or accrued in the origin year of the splitter arrangement.

5. The two-letter code for the country to which the taxes were paid or accrued from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes). Do not enter "various" or "OC" for the country code.

6. The separate category and source of income to which the taxes are assigned if determinable by the partnership.

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

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

**Box 5. High-taxed income.** If the partnership has passive income, check the box for item 5 and attach a statement to Schedules K-2 and K-3 with *Worksheet 1 or 2*, or both, completed. The partner will use this information to determine whether its passive income is high-taxed passive income.

Income received or accrued by a U.S. person that would otherwise be passive income is not treated as passive income if the income is determined to be high-taxed income. See section 904(d)(2)(B)(iii)(II). To determine if income is high-taxed income, a partner must group its shares of items of passive income from a partnership according to the rules in Regulations section 1.904-4(c)(3), except that the portion, if any, of the share of income attributable to income earned by a domestic partnership through a foreign qualified business unit (QBU) is separately grouped under the rules of Regulations section 1.904-4(c)(4). See also Regulations section 1.904-4(c)(5)(ii). For this purpose, a foreign QBU is a qualified business unit (as defined in section 989(a)), other than a controlled foreign corporation (CFC) or noncontrolled 10%-owned foreign corporation, that has its principal place of business outside the United States.

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

**Example 1.** In Year 1, USP, a domestic partnership, has two domestic corporate partners with equal interests in the partnership. In Year 1, USP receives

**Table 1**

**Information on Personal Property Sold (For use with Sch. K-2 (Form 1065), Part I, box 1; also for use with Sch. K-3 (Form 1065), Part I, box 1)**

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

## Worksheets 1 and 2 for Schedule K-2

### Worksheet 1

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

### Worksheet 2

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

\$100 of passive dividend income from a noncontrolled 10%-owned foreign corporation subject to a 15% withholding tax. USP also receives \$150 of passive interest income from an unrelated person subject to a 30% withholding tax. USP incurs \$80 of expenses that are allocable to the interest income. USP also receives \$50 of passive dividend income from a CFC which is not subject to tax. No expenses are allocable to the dividend income. USP's branch operation in Country X that is treated as a QBU under section 989(a) receives \$100 of passive dividend income subject to a 15% withholding tax. Finally, USP earns \$400 of passive income with respect to its branch operation in Country X that is treated as a QBU under section 989(a). Such income is subject to foreign tax (but not withholding tax) of \$40. Expenses of \$120 are allocable to the distributive share of branch income. No expenses are allocable to the dividend income.

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

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

**Box 6. Section 267A disallowed deduction.** Check box 6 if the partnership paid or accrued any interest or royalty for which

the partnership knows, or has reason to know, that one or more of its partners is not allowed a deduction under section 267A. See the instructions for Form 1065, Schedule B, line 22, and FAQs for section 267A at [IRS.gov/businesses/partnerships/faqs-for-Form-1065-Schedule-B-Other-Information-Question-22](https://www.irs.gov/businesses/partnerships/faqs-for-Form-1065-Schedule-B-Other-Information-Question-22) for additional information regarding section 267A. In addition, for each partner that is disallowed a deduction under section 267A, the partnership should, on the Schedule K-3 as to the specific partner, check box 6 in Part I, and attach to the Schedule K-3 a statement titled "Section 267A Disallowed Deduction" that separately lists the following information.

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



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

**Box 7. Form 8858 information.** If the partnership filed one or more Forms 8858, Information Return of U.S. Persons With Respect to Foreign Disregarded Entities (FDEs) and Foreign Branches (FBs), check box 7 and attach the form(s) to Schedule K-2 and K-3.

**Box 8. Form 5471 information.** If the partnership filed one or more Forms 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, check box 8 and attach the form(s) to Schedules K-2 and K-3.

**Box 9. Other forms.** If the partnership filed any other international tax forms, check box 9, and attach those form(s) to Schedules K-2 and K-3. This includes, but is not limited to, the following forms.

- Form 5713, International Boycott Report.
- Form 8833, Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b).
- Form 8621.
- Form 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships.

## Worksheets for Example 1

### Worksheet 1 for Example 1

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

### Worksheet 2 for Example 1

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

See *Other Forms, Returns, and Statements That May Be Required* in the Instructions for Form 1065.

If the partnership has filed Form 8990, check box 9 and provide on Schedule K-1 the information needed to complete Form 8990, Schedule A for foreign partners which are required to report their distributive share of excess business interest expense, excess taxable income, and excess business interest income, if any, that is attributable to income effectively connected with a U.S. trade or business.

**Box 10. Partner loan transactions.** A partnership will need to check this box and attach a statement with the information in the applicable *Table 2* or *3* if either the partnership knows or has reason to know that it (a) received a loan from its partner (or a member of the partner's affiliated group) ("downstream loan"), as described in Regulations section 1.861-9(e)(8), or (b) loaned an amount to its partner (or a member of the partner's affiliated group) ("upstream loan"), as described in Regulations section 1.861-9(e)(9).

**Downstream loans.** On an attached statement, the partnership will provide the details with respect to any downstream loans from its partner or a member of the partner's affiliated group, including the amount of interest expense paid or accrued by the partnership. Report the information separately for each separate loan. The reporting should be as follows in *Table 2, Downstream Loans*.

**Table 2. Downstream Loans**

Name of Lender	Lender's TIN	Date of Loan	Amount of Loan	Interest Expense for the Year

If there are any partners in the same affiliated group as the lender, attach to each of the Schedules K-2 and K-3 a statement to expand the columns in the table to include the information requested in the first two columns for each such partner.

**Upstream loans.** On an attached statement, the partnership will provide the details with respect to any upstream loans to its partner or a member of the partner's affiliated group, including the amount of interest income received or accrued by the partnership. Report the information separately for each separate loan. The reporting should be as follows in *Table 3, Upstream Loans*.

**Table 3. Upstream Loans**

Name of Borrower	Borrower's TIN	Date of Loan	Amount of Loan	Interest Expense for the Year

If there are any partners in the same affiliated group as the borrower attach to each of the Schedules K-2 and K-3 a statement to expand the columns in the table to include the information requested in the first two columns for each such partner.

**Box 11. Dual consolidated loss.** Check box 11 if either (a) the reporting partnership directly or indirectly owns a foreign branch (as defined in Regulations section 1.367(a)-6T(g)) or an interest in a hybrid entity (as defined in Regulations section 1.1503(d)-1(b)(3)), or (b) the reporting partnership is a hybrid entity (as defined in Regulations section 1.1503(d)-1(b)(3)). However, box 11 should not be checked if the reporting partnership knows that none of its partners is a domestic corporation (other than a regulated investment company, a real estate investment trust, or an S corporation). A domestic corporate partner's interest in the reporting partnership or its indirect interest in a foreign branch or hybrid entity may be treated as a separate unit and subject to the dual consolidated loss ("DCL") rules pursuant to Regulations section 1.1503(d)-1 through 1.1503(d)-8. A reporting partnership may need to provide information to its domestic corporate partners, in addition to the information provided in this schedule, in order for such partners to comply with the DCL rules (for example, the partner's share of income or DCL attributable to the foreign branch or interest in a hybrid entity). Some of the necessary information may be provided on Form 8858.

**Box 12. Other international transactions.** If the partnership has transactions, income, deductions, payments, or anything else that is impacted by the international tax provisions of the Internal Revenue Code and such events are not otherwise reported on this part or other parts of Schedules K-2 and K-3, report that information on a statement that is



attached to Schedules K-2 and K-3 and check box 12.

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

**Note.** Certain partners will use the following information to claim and figure a foreign tax credit on Form 1116 or 1118. Schedules K-2 and K-3, Parts II and III, must be completed unless the partnership does not have a direct or indirect partner that is eligible to claim a foreign tax credit and such partner would have to file a Form 1116 or Form 1118 to claim a credit. This requirement applies regardless of whether the partnership pays or accrues foreign taxes because other information, such as the source of the partnership's income and the value of its assets, are relevant in determining the partner's foreign tax credit. A partner that is eligible to claim a foreign tax credit includes a domestic corporation, a U.S. citizen or resident, certain U.S. trusts and estates, certain foreign corporations, and certain nonresident individuals. See sections 901 and 906. An indirect partner includes a partner that owns the partnership through a pass-through entity (for example, a partnership, S corporation, or a trust (see Regulations section 1.904-5(a)(4)(iv) for the definition of pass-through entity)). An indirect partner also includes a partner that owns the partnership through a foreign corporation. A partnership that does not have or receive sufficient information or notice regarding a direct or indirect partner must presume such partner is eligible to claim a foreign tax credit and such partner would have to file a Form 1116 or Form 1118 to claim a credit. As such, the partnership must complete the Schedule K-2 and K-3, accordingly.

On Schedule K-2, Parts II and III, the partnership reports its gross income, gross receipts, cost of goods sold, certain deductions, and taxes by source and separate category. The partnership also reports information that the partner needs to allocate and apportion expenses and determine the source of certain items of gross income. Unless specifically noted below, the partnership reports on Schedule K-3, Parts II and III, the partner's share of the partnership's gross receipts, gross income, cost of goods sold, certain deductions and taxes by source and separate category. The partner adds its share of the partnership's foreign source gross income, gross receipts, cost of goods sold, certain deductions and taxes by separate category to its other foreign source gross income, gross receipts, cost of goods sold, certain deductions, and taxes in that separate category to figure its foreign tax credit. The partnership also reports on the Schedule K-3 the

distributive share of expenses and the allocation and apportionment factors so that the partner may determine expenses allocated and apportioned to foreign source income.

**Partnership determination.** The source and separate category of certain gross income, gross income, and cost of goods sold as well as the allocation and apportionment of certain deductions can be determined by the partnership. This includes deductions that are definitely related to certain gross income of the partnership. See Regulations section 1.861-8(b)(1). See Schedule K-2, Part II, columns (a) through (e); Part III, Section 1, columns (a) through (e); Part III, Section 3, columns (a) through (d); and Part III, Section 5, columns (a) through (f). In Part III, Section 2, columns (a) through (e), some partnership assets may be characterized by source and separate category by the partnership. This includes certain assets that attract directly allocated interest expense under Temporary Regulations section 1.861-10T(b) and (c). See Temporary Regulations section 1.861-10T(d)(2).

In Part III, Section 4, in the U.S. and foreign columns, the partnership assigns foreign taxes paid or accrued to a separate category and source.

The partner's distributive share of the amounts determined by the partnership are reported on equivalent columns in Schedule K-3, Parts II and III.

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

**Exception.** If the partnership knows that its only partners are less-than-10% limited partners that do not hold their interest in the ordinary course of the partner's active trade or business, the partnership's foreign source gross income and gross receipts should be reported as passive category income and its deductions allocated and apportioned to foreign source income should be reported as reducing passive category income. See Schedule K-2, Part II, column (c); Part III, Section 1, column (c); Part III, Section 3, column (b); and Part III, Section 5, column (d). Report the assets as generating passive category income in Schedule K-2, Part III, Section 2, column (c). Similarly, any foreign taxes paid or accrued on foreign source income should be assigned to passive category income. See Schedule K-2, Part III, Section 4, column (d). The partner's distributive share of the amounts determined by the partnership are reported on equivalent columns in Schedule K-3, Parts II and III. See Regulations section 1.904-4(n)(1)(ii).

**Schedule K-3.** If the partnership knows or has reason to know that some partners are less-than-10% limited partners (and their partnership interest is not held in the ordinary course of the partner's active trade or business), but not all partners meet this description, when completing the Schedule K-3 for the less-than-10% limited partners, report the partner's foreign source income as passive category income. See Part II, column (c); Part III, Section 1, column (c); Part III, Section 3, column (b); and Part III, Section 5, column (d). Report the assets as generating passive category income in Part III, Section 2, column (c). Similarly, report the foreign taxes paid or accrued on foreign source income as passive category income in Part III, Section 4, column (d).

**Foreign branch category income.** A domestic partnership itself does not have foreign branch category income. However, report all amounts that would be foreign branch category income of its partners as if all partners were U.S. persons that were not pass-through entities. See Schedule K-2, Part II, column (b); Part III, Sections 1 and 2, column (b); and Part III, Sections 4 and 5, column (c). The partner's distributive share of the amounts determined by the partnership are reported on equivalent columns in Schedule K-3, Parts II and III.

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

**Section 901(j) income.** Income derived from each sanctioned country is subject to a separate foreign tax credit limitation. If the partnership derives such income, enter code "901j" on the line after "category code." See Schedule K-2, Part II, Sections 1 and 2, column (e); Part III, Sections 1 and 2, column (e); Part III, Section 3, column (d); and Part III, Sections 4 and 5, column (f). The partner's distributive share of the amounts determined by the partnership are reported on equivalent columns in Schedule K-3, Parts II and III. See the Instructions for Form 1118 for the potential countries to be listed with the section 901(j) category of income.

**Note.** As of the date of these instructions, section 901(j) is the only category reported on Part II, Sections 1 and 2, column (e); Part III, Sections 1 and 2, column (e); and Part III, Section 5, column (f)

**Section 951A category income.** Section 951A category income is any amount of Global Intangible Low-Taxed

Income (GILTI) includible in gross income under section 951A (other than passive category income). (Section 951A category income does not include passive category income.) If the partnership pays or accrues tax on the receipt of a distribution of PTEP assigned to the reclassified section 951A PTEP group or section 951A PTEP group, the partnership must assign those taxes to section 951A category income.

The partnership will enter such taxes on Part III, Section 4, column (b). This code is not utilized in other portions of Parts II and III.

**Income resourced by treaty.** If a sourcing rule in an applicable income tax treaty treats any U.S. source income as foreign source, and there is an election to apply the treaty, the income will be treated as foreign source. This category applies if the partnership pays or accrues foreign taxes on receipt of a distribution of PTEP that is sourced from an annual PTEP account of the partnership that corresponds to the separate category relating to U.S. source income included under section 951(a)(1) and resourced as foreign source income under a treaty.

The designations below are only relevant for Part III, Section 4, column (f).

**Code "RBT PAS."** If an applicable income tax treaty treats any U.S. source passive category income as foreign source passive category income, and there is an election to apply the treaty, enter code "RBT PAS."

**Code "RBT GEN."** If an applicable income tax treaty treats any U.S. source general category income as foreign source general category income, and there is an election to apply the treaty, enter code "RBT GEN."

**Code "RBT 951A."** If an applicable income tax treaty treats any U.S. source section 951A category income as foreign source section 951A category income, and there is an election to apply the treaty, enter code "RBT 951A."

**Partner determination.** In Schedule K-2, Part II, column (f); Part III, Section 1, column (f); Part III, Section 3, lines 1 and 2, column (e); and Part III, Section 5, column (g) enter the gross income, income adjustments, and gross receipts of the partnership that are required to be sourced by the partner. This includes income from the sale of most personal property other than inventory, depreciable property, and certain intangible property sourced under section 865. This also includes certain foreign currency gain on section 988 transactions. See the instructions for Forms 1116 and 1118 and Pub. 514, Foreign Tax Credit for

Individuals, for additional details. In Schedule K-2, Part II, column (f) and Part III, Section 3, lines 3 and 4, column (e), include deductions that are allocated and apportioned by the partner. This includes most interest expense and R&E expense. See Regulations sections 1.861-9(e) and 1.861-17(f). In Schedule K-2, Part III, Section 2, column (f), enter the assets that are assigned to a source and separate category by the partner. In Schedule K-2, Part III, Section 4, in the partner column, enter the foreign taxes that are assigned to a source of income by the partner. This includes taxes imposed on certain sales income. The partner's distributive share of the amounts determined by the partnership are reported on equivalent columns in Schedule K-3, Parts II and III.

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

### Section 1. Gross Income, lines 1 through 24

Schedule A (Form 1118) requires a corporation to separately report certain types of gross income by source and separate category. Separate reporting is required because each type of gross income has a different sourcing rule. See sections 861 through 865 (and section 904(h) and, in some cases, U.S. income tax treaties). Schedules K-2 and K-3, Part II, Section 1 generally follow the separately reported types of gross income on Schedule A. Individuals must follow the same sourcing rules, but Form 1116 only requires reporting of total gross income from foreign sources by separate category. Therefore, those required to file Form 1116 will report line 24 by country on their Form 1116, Part I, line 1a. Section 1 also generally follows the types of gross income separately reported on Form 1065, Schedule K.

For each line, report the total for each country in column (g).

**Country code.** Forms 1116 and 1118 require the taxpayer to report the foreign country or U.S. possession with respect to which the gross income is sourced. On lines 1 through 24, for each gross income item, enter on a separate line (A, B, or C) the two-letter code from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes) for the foreign country or U.S. possession within which the gross income is sourced. If a type of income is sourced from more than three countries, attach a statement with the information required on Schedule K-2, Part II, and Schedule K-3, Part II, for that type of income.

**Note.** Do not enter "various" or "OC" for the country code.

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

**Example 2 Table**

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

**Exceptions.** The instructions for Forms 1116 and 1118 specify exceptions from the requirement to report gross income by foreign country or U.S. possession with respect to regulated investment companies and section 863(b). Do not enter a foreign country or U.S. possession (to report on a country-by-country basis) for lines 16 through 18.

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

**Lines 7 and 8. Ordinary dividends and qualified dividends.** Enter only ordinary dividends on line 7 and only qualified dividends on line 8. Do not include as ordinary dividends or qualified dividends the amount of any distributions received to the extent that they are attributable to PTEP in annual PTEP accounts of the partnership. See the instructions for line 19 for when a partnership might have an income inclusion with respect to a foreign corporation.

**Note.** The amount by which distributions are attributable to PTEP in annual PTEP accounts of a direct or indirect partner is not determined by the partnership and therefore is not taken into account for purposes of determining the ordinary dividends to be entered on line 7 or the qualified dividends to be entered on line 8.

**Lines 11 through 15 and 27 through 30. Capital gains and losses.** These lines generally match the types of gains and losses reported separately on Form 1065, Schedule K. Further, section 904(b)(2)(B) contains rules regarding adjustments to account for capital gain rate differentials (as defined in section 904(b)(3)(D)) for any tax year.

**Lines 16 and 46. Section 986(c) gain and loss.** Include the partnership's share



of a lower-tier pass-through entity's section 986(c) gain or loss, and the amount of section 986(c) gain or loss on distributions of PTEP sourced from an annual PTEP account of the partnership.

**Note.** A partnership is only responsible for computing and reporting foreign currency gain or loss under section 986(c) with respect to distributed PTEP sourced from an annual PTEP account of the partnership. It is not responsible for computing or reporting foreign currency gain or loss under section 986(c) with respect to distributed PTEP sourced from an annual PTEP account of a direct or indirect partner.

**Lines 17 and 47. Section 987 gain and loss.** The source of section 987 gain or loss is generally determined by reference to the source of the income or asset giving rise to such gain or loss. A partnership may also obtain section 987 gain or loss information from Form 8858.

**Lines 18 and 48. Section 988 gain and loss.** The source of foreign currency gain or loss on section 988 transactions is generally determined by reference to the residence of the taxpayer or QBU on whose books the asset, liability, or item of income or expense is properly reflected. If the source is determined by reference to the residence of the taxpayer partner, the section 988 gain and loss would be reported in column (f).

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

**Line 20. Other income.** Attach a statement to both Schedules K-2 and K-3 describing the amount and type of other income. The statement must conform to the format of Part II.

**Line 24. Total gross income.** Enter the total gross income received from all sources on line 24. Then add the gross income in lines 1 through 23 by country or possession and enter the total by country in rows A, B, and C (and additional rows if more than three countries).

## Section 2. Deductions, lines 25 through 54

Schedule A (Form 1118) requires a corporation to separately report certain types of deductions and losses by source

and separate category. Separate reporting is required because each type of deduction may be allocated and apportioned according to a different methodology. See, for example, Regulations sections 1.861-8 through -20 and Temporary Regulations sections 1.861-8T and -9T. For purposes of allocating and apportioning expenses, in general, a partner adds the distributive share of the partnership's deductions to its other deductions incurred directly by the partner. See Regulations section 1.861-8(e)(15). Generally, Section 2 follows the separately reported types of deductions and losses on Schedule A (Form 1118). Individuals must generally follow the same expense allocation and apportionment rules, but Form 1116 only requires separate reporting of certain deductions by separate category. See Form 1116, Part I, lines 2 through 5. Generally, Section 2 also generally corresponds to the deductions separately reported on Schedule K (Form 1065).

**Line 32. R&E expenses.** In general, R&E expenses are allocated and apportioned by the partner and reported in column (f). See Regulations section 1.861-17(f). R&E expenses, as described in section 174, are ordinarily definitely related to gross intangible income reasonably connected with relevant broad product categories of the taxpayer and are allocable to gross intangible income as a class related to such product categories. The product categories are determined by reference to the three-digit classification of the Standard Industrial Classification Manual (SIC code).

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

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

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

Interest expense incurred by certain individuals, estates, and trusts is characterized based on the categories of interest expense in sections 163 and 469: active trade or business interest, investment interest, or passive activity interest, adjusted for any interest expense directly allocated under Temporary Regulations section 1.861-10T. See Regulations section 1.861-9T(d). The amounts in each category of interest expense are reported on lines 41 through 43. If the partnership's only partners are corporate partners, the partnership need not report its interest expense by the categories of interest expense in sections 163 and 469. All such interest expense may be reported as business interest expense on line 41.

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

**Exception.** See Regulations section 1.861-9(e)(8) and (9) for a special rule for partnership loans. See also [Box 10. Partner loan transactions](#).

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

**Note.** Foreign taxes that are creditable (even if a partner chooses to deduct such taxes) are not reported as expenses on Part II. Creditable taxes are reported on Part III, Section 4.

**Lines 49 and 50. Other deductions.** Attach to the Schedules K-2 and K-3 a statement describing the amount and type of other deductions. The statement must conform to the format of Part II.

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

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

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

Deductible R&E expenses, as described in section 174, are ordinarily definitely related to gross intangible income reasonably connected with relevant broad product categories of the taxpayer and are allocable to gross intangible income as a class related to such product categories. The product categories are determined by reference to the three-digit classification of the SIC code. In general, R&E expenses are apportioned based on gross receipts. R&E expenses are allocated and apportioned by the partner. See Regulations section 1.861-17(f)(1). This requires that the partnership reports to its partners the gross receipts by SIC code according to source and separate category of income. This also requires that the partnership reports the amount of R&E expense performed in the United States and outside the United States to apply exclusive apportionment. See Regulations section 1.861-17(f)(2).

**Column (e).** As of the date of these instructions, the only separate category that could be included in column (e) is the section 901(j) category of income. See the Instructions for Form 1118 for the potential countries to be listed with the section 901(j) category of income.

**Line 1.** Enter the gross receipts by SIC code for each grouping. Such gross receipts include both the partnership's gross receipts and certain other parties' gross receipts. See Regulations section 1.861-17(d)(3) and (4). Sales of parties controlled by the partnership should be included in line 1 if such controlled parties can reasonably be expected to benefit from the R&E expense connected with the product categories. This includes sales that benefit from the partner's R&E expenses if licensed through the partnership. Sales of uncontrolled parties are also taken into account if such sales involve intangible property that was licensed or sold to the uncontrolled party if the uncontrolled party can reasonably be expected to benefit from the R&E expense.

**Line 2.** Report the amount of R&E expense related to activity performed in the United States and the amount of R&E expense related to activity performed outside the United States by SIC code. The total of the amounts on Schedule K-2, Part III, Section 1, line 2, must equal Schedule K-2, Part II, line 32. Similarly, the total of the amounts on Schedule K-3, Part III, Section 1, line 2, must equal Schedule K-3, Part II, line 32.

**Note.** Line 2 is not reported according to source or separate category.

**Note.** The SIC code for line 2B(i) does not need to be the same SIC code for line 2A(i).

## Section 2. Interest Expense Apportionment Factors

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

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

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

**Column (e).** As of the date of these instructions, the only separate category that could be included in column (e) is the section 901(j) category of income. See the Instructions for Form 1118 for the potential countries to be listed with the section 901(j) category of income.

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

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

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

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

**Line 6.** Individual partners who are general partners or who are limited partners with an interest in the partnership

of 10% or more follow the same rules as corporate partners whose interest in the partnership is 10% or more except that their interest expense must be apportioned according to the interest expense classifications under sections 163 and 469. This includes reporting the assets according to such classifications. If the partnership has no such partners, the partnership need not complete Schedule K-2, Part III, Section 2, lines 6(b) through (d), or Schedule K-3, Part III, Section 2, lines 6(b) through (d). The partnership would include the total amount on line 6(a).

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

**Lines 7 and 8.** The amounts reported on lines 7 and 8 are subsets of the amounts reported on line 6 representing the value of stock held by the partnership in certain foreign corporations. In determining its foreign tax credit limitation, a partner should disregard interest expense that is "properly allocable" to stock of a 10%-owned foreign corporation that has been characterized as a section 245A asset. See section 904(b)(4) and Regulations section 1.904(b)-3(a)(1)(ii). The amount of properly allocable deductions is determined by treating the section 245A subgroup for each separate category as a statutory grouping for purposes of allocating and apportioning interest deductions on the basis of assets. Assets in a section 245A subgroup only include stock of a specified 10%-owned foreign corporation that has been characterized as a section 245A asset.

The stock is characterized as a section 245A asset to the extent it generates income that would generate a dividends received deduction under section 245A if distributed. This does not include income that is included as GILTI, subpart F income, or a section 951(a)(1)(B) inclusion or income described in section 245(a)(5) (which gives rise to a dividends received deduction under section 245 instead of section 245A).

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

deduction (for example, due to tiered ownership), the partner must determine to what extent the stock is treated as an asset in a section 245A subgroup.

With respect to a partnership-owned specified 10% foreign corporation that is not a CFC, the partnership will report on line 7, columns (a) through (e), the total value of the stock in all such foreign corporations. The value of the stock is the partnership's basis in the stock adjusted to take into account the E&P of the foreign corporations as explained in Regulations section 1.861-12(c)(2). The partnership must attach a statement to the Schedules K-2 and K-3 with the following information for each foreign corporation for which adjusted basis is reported on line 7.

- Name of foreign corporation.
- EIN or reference ID number. Do not enter "FOREIGNUS" or "APPLIED FOR."
- Percentage of voting and value of stock owned by partnership in such foreign corporation.
- Value of the stock in such corporation included in each of the groupings in 6b through d (identify separately each of those groupings).

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

However, because the partnership generally will not have the information to apply the stock characterization rules described in Regulations section 1.861-13(a)(5), the partner must apply those rules to characterize the stock.

With respect to partnership-owned CFCs, the partnership will report on line 8, column (f), the total value of its stock in all such foreign corporations. The value of the stock is the partnership's inside basis in the stock adjusted to take into account the E&P of the foreign corporations as explained in Regulations section 1.861-12(c)(2). The partnership must attach a statement to the Schedules K-2 and K-3 with the following information for each foreign corporation for which basis is reported on line 8.

- Name of foreign corporation.
- EIN or reference ID number. Do not enter "FOREIGNUS" or "APPLIED FOR."
- Percentage of voting and value of stock owned by partnership in such foreign corporation.
- Value of the stock in such corporation.

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

This section requires the partnership to report information that a partner will use to

allocate and apportion its FDII deduction under section 250(a)(1)(A) for foreign tax credit limitation purposes. The deduction is definitely related and allocable to the class of gross income included in the partner's foreign-derived deduction eligible income (as defined in section 250(b)(4)) and is apportioned within the class, if necessary, ratably between the statutory grouping (or among the statutory groupings) of gross income and the residual grouping of gross income based on the relative amounts of foreign-derived deduction eligible income in each grouping. See Regulations section 1.861-8(e)(13). If the partner is a member of a consolidated group, see Regulations section 1.861-14(e)(4). Accordingly, this section requires the partnership to report information that its partners will use to determine the source and separate category of its income so that the partners may allocate and apportion the FDII deduction under section 250(a)(1)(A) for purposes of the foreign tax credit limitation.

**Lines 1 and 2.** Report the partnership's foreign-derived gross receipts and cost of goods sold, respectively, by source and separate category.

**Lines 3 and 4.** Report the partnership's deductions allocable to foreign-derived gross receipts and other partnership deductions apportioned to foreign-derived gross receipts, respectively. See Part IV, Section 2, lines 11 and 12. Although these deduction amounts are necessary to figure the partner's FDII deduction, once this amount is determined, the actual FDII deduction itself is allocated and apportioned as described in Regulations section 1.861-8(e)(13).

**Column (d).** As of the date of these instructions, the only separate category that could be included in column (d) is the section 901(j) category of income. See the Instructions for Form 1118 for the potential countries to be listed with the section 901(j) category of income.

### Section 4. Foreign Taxes

In Part III, Section 4, the partnership assigns foreign taxes paid or accrued (including on U.S. source income) to a separate category and source. Include taxes paid or accrued to foreign countries or to U.S. possessions.

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

- The dates on which the taxes were paid or accrued.
- The exchange rates used.

- The amounts in both foreign currency and U.S. dollars. See section 986(a).

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

### Codes for Types of Tax

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

**Column (b). Taxes assigned to section 951A category.** Taxes assigned to section 951A category income are taxes paid or accrued on distributions of PTEP assigned to the reclassified section 951A PTEP and section 951A PTEP groups. A partnership might not be able to complete this column due to lack of information regarding the treatment of the current year distributions.

**Note.** Do not report as taxes assigned to section 951A category income taxes on a distribution that is assigned by a partner to the reclassified section 951A PTEP or section 951A PTEP groups as a result of the partner's prior section 951A inclusion.

**Column (f). Other category.**

**Foreign taxes paid or accrued to sanctioned countries.** No credit is allowed for foreign taxes paid or accrued to certain sanctioned countries.

**Foreign taxes related to PTEP resourced by treaty.** If the partnership pays or accrues foreign taxes on receipt of a distribution of PTEP that is sourced from an annual PTEP account of the partnership that corresponds to the separate category relating to U.S. source income included under section 951(a)(1) and resourced as foreign source income



under a treaty, such taxes are included in column (f).

On the line after "category code," enter one of the following codes.

**Code "RBT PAS."** If an applicable income tax treaty treats any U.S. source passive category income as foreign source passive category income, and there is an election to apply the treaty, enter code "RBT PAS."

**Code "RBT GEN."** If an applicable income tax treaty treats any U.S. source general category income as foreign source general category income, and there is an election to apply the treaty, enter code "RBT GEN."

**Code "RBT 951A."** If an applicable income tax treaty treats any U.S. source section 951A category income as foreign source section 951A category income, and there is an election to apply the treaty, enter code "RBT 951A."

**Line 1.** Enter in U.S. dollars the total foreign taxes (described in section 901 or section 903) that were paid or accrued by the partnership (according to its method of accounting for such taxes). Do not reduce the amount that you report on line 1 by the reductions reported on line 2. Do not report redetermined taxes on line 1. Report such taxes on line 3.

If the partnership has the cash method of accounting, check the "Paid" box and enter foreign taxes paid during the tax year on line 1. Report each partner's share on Schedule K-3, Part III, Section 4, line 1.

If the partnership has the accrual method of accounting, check the "Accrued" box and enter foreign taxes accrued on line 1. Report each partner's share on Schedule K-3, Part III, Section 4, line 1.

**Note.** Check only one box "paid" or "accrued" depending on the method of accounting the partnership takes into account foreign taxes.

Enter on a separate line (that is, after A, B, and C), taxes paid or accrued to each country. Enter the two-letter code from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes). Do not enter "various" or "OC" for country code.

**Example 3.** The facts are the same as in *Example 2*, earlier. USP has the cash method of accounting and pays taxes of \$1,000 and \$3,000 to Countries XX and YY, respectively. USP completes Part III, Section 4, line 1, as follows.

### Example 3 Table

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

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

- A. Taxes on foreign mineral income (section 901(e)).
- B. Reserved.
- C. Taxes attributable to boycott operations (section 908).
- D. Reduction in taxes for failure to timely file (or furnish all of the information required on) Forms 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, and 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships (section 6038(c)).
- E. Foreign income taxes paid or accrued during the current tax year with respect to splitter arrangements under section 909.
- F. Foreign taxes on foreign corporate distributions. For example, report taxes on dividends eligible for a deduction under section 245A and ineligible for credit under section 245A(d). Also, include taxes on a distribution of PTEP assigned to the following PTEP groups: reclassified section 965(a) PTEP, reclassified section 965(b) PTEP, section 965(a), section 965(b) PTEP, a portion of which are not creditable. The partnership may be unable to determine the amount of a distribution that is attributable to non-previously taxed E&P or PTEP for which a foreign tax credit may be partially or entirely disallowed. However, it is important to track this amount as a tax on a distribution.
- G. Other. Attach a statement to Schedules K-2 and K-3 indicating the reason for the reduction.

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

**Line 3.** Enter in U.S. dollars the change in foreign tax as a result of a foreign tax redetermination. See section 905(c) and Regulations sections 1.905-3 through -5. If the amount is less than the original foreign tax, report the change as a negative amount. If the amount is more than the original foreign tax, report the change as a positive amount.

**Note.** Payment of additional foreign taxes that relate to an earlier tax year by a

partnership that has the cash method of accounting does not result in a foreign tax redetermination. See Regulations section 1.905-3(a). Such amounts should be reported on line 1 as foreign taxes paid by the partnership in the current year.

Report the U.S. tax year to which the foreign tax relates. This would be the U.S. tax year that includes the close of the foreign tax year to which the tax relates. Report the date on which the tax was paid. If there is more than one date tax is paid, enter one of the dates paid on the schedule itself and then attach to the Schedules K-2 and K-3 a statement including all of the information reported on the schedule with the other dates paid.

If there is more than one redetermination in a year with respect to different countries, report such redeterminations on separate lines. Enter the two-letter code from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes). Similarly, if there is more than one redetermination in a year with respect to the same country, but the redeterminations are related to different years, report such redeterminations on separate lines. Do not enter "various" or "OC" for the country code.

**Example 4.** The facts are the same as in *Example 3*, earlier. In Year 3, USP resolves a contest with the Country YY taxing authorities and reduces the Country YY tax to \$2,000. USP pays the tax liability on April 30 of Year 3. In Year 3, USP reports on its Schedule K-2, Part III, Section 4, line 3, as follows.

### Example 4 Table

			(a)	(e)
	Foreign tax redeterminations		Type of tax	Foreign
A	YY		OTHR	(1,000)
	Related tax year	Year 1		
	Date tax paid	4/30/ Year 3		

### Section 5. Other Tax Information

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

**Column (b).** Do not report any amounts in this column.

**Column (f).** As of the date of these instructions, this column will only include the section 901(j) category and the countries relevant to that category. See the Instructions for Form 1118 for the potential countries to be listed with the section 901(j) category of income.

**Line 1.** For partnerships other than publicly traded partnerships, report the

total of all partners' shares of the net positive income adjustments resulting from all section 743(b) basis adjustments. Net positive income adjustments from all section 743(b) basis adjustments means the excess of all section 743(b) adjustments allocated to the partner that increase the partner's taxable income over all section 743(b) adjustments that decrease the partner's taxable income.

Attach to Schedules K-2 and K-3 a statement showing each section 743(b) basis adjustment making up the total and identify the assets to which it relates and the separate category and source of the income generated by the assets. Make sure to include the class of gross income or deduction, for example, sales income, interest income, or depreciation deduction. The partnership may group these section 743(b) basis adjustments by asset category or description in cases where multiple assets are affected if the assets generate the same separate category and source of income. The section 743(b) positive income adjustments should be included as relevant in other parts of the Schedule K-2. For example, the section 743(b) income adjustments should be reflected as part of the total depreciation reported on Part II, Section 2.

**Line 2.** For partnerships other than publicly traded partnerships, report the total of all partners' shares of the net negative income adjustment resulting from all section 743(b) basis adjustments. Net negative income adjustments from all section 743(b) basis adjustments means the excess sum of all section 743(b) adjustments allocated to the partner that decrease partner taxable income over all section 743(b) adjustments that increase partner taxable income. Attach to the Schedules K-2 and K-3 a statement showing each section 743(b) basis adjustment making up the total and identify the assets to which it relates and the separate category and source of the income generated by the assets. Make sure to include the class of gross income or deduction, for example, sales income, interest income, or depreciation deduction. The partnership may group these section 743(b) basis adjustments by asset category or description in cases where multiple assets are affected if the assets generate the same separate category and source of income. The section 743(b) negative income adjustments should be included as relevant in other parts of the Schedule K-2. For example, the section 743(b) income adjustments should be reflected as part of the total depreciation reported on Part II, Section 2.

## **Schedule K-2, Part IV (Information on Partners' Section 250 Deduction with Respect to Foreign-Derived Intangible Income (FDII)) and Schedule K-3, Part IV (Information on Partner's Section 250 Deduction with Respect to Foreign-Derived Intangible Income (FDII))**

**Note.** Certain partners will use the following information to claim and figure a section 250 deduction with respect to FDII on Form 8993.

This part is used by the partnership to report information to a direct domestic corporate partner (other than real estate investment trusts, regulated investment companies, and S corporations) or to a partner which is a partnership that has a direct or indirect domestic corporate partner (other than real estate investment trusts, regulated investment companies, and S corporations) needed to determine the domestic corporate partner's FDII. A partnership that does not have or receive sufficient information or notice regarding a partner must presume the partner is a domestic corporate partner or a partnership that has a direct or indirect domestic corporate partner and the partnership must complete the Schedules K-2 and K-3, Part IV, accordingly. Any partnership with direct or indirect domestic corporate partners must complete this part, though the partnership does not have foreign-derived gross receipts. Even if a partnership has no foreign activities, and therefore has no foreign-derived deduction eligible income as reported in Section 2 of this part, the partnership must still report the information required by Sections 1 and 3 of this part so that any domestic corporate partner can correctly determine its section 250 deduction. For example, a domestic corporate partner would still need information about the partnership's qualified business asset investment (see instructions to line 8 of this part) in such a case to determine its deemed tangible income return and deemed intangible income. See section 250(b)(2).

Section 250 allows a domestic corporation a deduction for its FDII and a direct or indirect domestic corporate partner must take into account certain activities of a partnership in computing the domestic corporation's FDII. For the treatment of a domestic corporation that is a partner in a partnership, see Regulations sections 1.250(b)-1(e), 1.250(b)-2(g), and 1.250(b)-3(e). These instructions generally indicate how a partnership should complete Part IV (of both Schedules K-2 and K-3). However,

Schedule K-2 includes the total of all partners' amounts and Schedule K-3 includes each partner's share.

Enter each amount and total amounts in U.S. dollars. The partnership should determine and report the partner's share of each item of the partnership contained on this form in accordance with the partner's distributive share of the underlying item of income, gain, deduction, and loss of the partnership. The partnership should report these amounts based on the best information available to it about how its partners might use this information to determine their FDII deduction. The partnership may report certain information differently to each partner depending on federal income tax determinations that the partner makes. Each partner must then figure its FDII deduction using Form 8993 including the information reported to it on Schedule K-3, Part IV taking into account partner determinations. A partner must obtain (and if requested by a partner, the partnership must provide) any further necessary information from the partnership to correctly determine its FDII deduction.

Special rules for determining foreign use apply to transactions that involve property or services provided to related parties (see section 250(b)(5)(C) and Regulations section 1.250(b)-6).

For special substantiation requirements under the Regulations, see sections 1.250(b)-3(f), 1.250(b)-4(d)(3), and 1.250(b)-5(e)(4). In all other cases, a taxpayer claiming a deduction under section 250 will still be required to substantiate that it is entitled to the deduction even if it is not subject to the specific substantiation requirements contained in the regulations. See section 6001 and Regulations section 1.6001-1(a). Therefore, the partner must be able to satisfy the general or special substantiation requirements to be eligible for the deduction. To the extent the partner does not have the necessary information in its possession to substantiate the deduction, the partnership must maintain the information.

As described above, the partnership should determine the partner's share of each item below in accordance with the partner's distributive share of the underlying item of income, gain, deduction, and loss of the partnership.

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

**Line 2(a). DEI gross receipts.** Enter all gross receipts from whatever source

derived except for amounts included on lines 3–7.

**Line 2(b). DEI cost of goods sold.**

Enter the amount of cost of goods sold attributable to the amount on line 2(a).

**Line 2(c). DEI properly allocated and apportioned deductions.**

Enter the amount of deductions (including taxes) properly allocable to the amount on line 2(a). See Regulations section 1.250(b)-1(d)(2) for more details. Deductions properly allocable to gross DEI are determined without regard to sections 163(j), 170(b)(2), 172, 246(b), and 250.

Lines 3 through 7 are exclusions from DEI used to determine the partner's DEI.

**Line 3. Section 951(a) inclusions.**

Enter any amounts included in the gross income under section 951(a)(1). Include the section 78 gross-up with respect to the inclusion under section 951(a)(1). A partnership may not have subpart F income if, pursuant to Proposed Regulations section 1.958-1(d)(4), it relies on Proposed Regulations section 1.958-1(d)(1), which treats a domestic partnership as not owning stock of a foreign corporation within the meaning of section 958(a) for purposes of section 951, and for purposes of any other provision that applies by reference to section 951.

**Note.** Partners will determine whether any amount included in the gross income of such corporate partner is GILTI under section 951A (or the section 78 gross-up with respect to this inclusion under section 951A), which can only be determined by the partner and therefore is not reported on Part IV, Section 1 of Schedules K-2 and K-3.

**Line 4. CFC dividends.** Enter the amount of any dividend received from a CFC with respect to which the partner is a U.S. shareholder as defined under section 951(b). Do not include as a dividend any amount received from a CFC to the extent that such amount is attributable to PTEP in the annual PTEP accounts of the partnership.

**Line 5. Financial services income.**

Enter the amount of net financial services income (as defined in section 904(d)(2) (D)) before interest and R&E deductions.

**Line 6. Domestic oil and gas extraction income.**

Enter the amount of net domestic oil and gas extraction income before interest and R&E deductions. The term "domestic oil and gas extraction income" means income described in section 907(c)(1) determined by substituting "within the United States" for "without the United States."

**Line 7. Foreign branch income.** Enter the amount of net foreign branch income

before interest and R&E deductions (as defined in section 904(d)(2)(J)). A partnership should report all income that would be foreign branch income of its partners as if all partners were U.S. persons.

**Line 8. Partnership QBAL.** Enter the amount, if any, of the partnership QBAL. A domestic corporation's QBAL is its share of the average of the aggregate adjusted bases, determined as of the close of each quarter of the tax year, in certain specified tangible property. See Regulations section 1.250(b)-2(b). The adjusted basis is determined by using the alternative depreciation system under section 168(g) and allocating depreciation deductions with respect to such property ratably to each day during the period in the tax year to which such depreciation relates. See Regulations section 1.250(b)-2(e). The specified tangible property is that which is used in the trade or business of the corporation in the production of gross income included in the domestic corporation's gross DEI and is of a type with respect to which a deduction is allowable under section 167. See Regulations section 1.250(b)-2(b). If a domestic corporation holds an interest in one or more partnerships during a tax year (including indirectly through one or more partnerships that are partners in a lower-tier partnership), the QBAL of the domestic corporation for the tax year is increased by the sum of the domestic corporation's partnership QBAL with respect to each partnership for the tax year. See Regulations section 1.250(b)-2(g)(1). Partnership QBAL is the sum of the domestic corporation's proportionate share of the partnership's adjusted basis in the property and the domestic corporation's partner specific QBAL basis in the property for the partnership tax year that ends with or within the tax year. See Regulations section 1.250(b)-2(g)(2). Partnership specified tangible property means with respect to a domestic corporation, tangible property that is used in the trade or business of the partnership, of a type with respect to which a deduction is allowable under section 167, and used in the production of gross income included in the domestic corporation's gross DEI. See Regulations section 1.250(b)-2(g)(5).

If a partnership cannot determine the portion of partnership specified tangible property (for example, if the partnership does not know if property gives rise to the production of gross income in one of the excluded categories from DEI that is determined by the partner, which would cause such property to not be classified as partnership specified tangible property), then in reporting the amount of a partner's share of the partnership QBAL, the partnership must separately state any information so a direct or indirect domestic

corporate partner can distinguish between the amount of the adjusted bases in a partnership's tangible property that the domestic corporation would include in its adjusted bases in the partnership specified tangible property and the amount of the adjusted bases in the partnership's tangible property that the domestic corporation would not include in its adjusted bases in the partnership specified tangible property.

If tangible property was used in the production of DEI and in the production of income that is non-DEI, then it is considered dual-use property and treated as specified tangible property in the same proportion that the amount of the gross income included in DEI produced with respect to the property bears to the total amount of gross income produced with respect to the property. See Example 2 of Regulations section 1.250(b)-2(g)(8) for guidance on how to figure the partner adjusted basis. If specified tangible property is only partially depreciable then only the depreciable portion is QBAL.

**Example 5.** X and Y are both domestic corporations which are partners in USP, a partnership that holds three types of assets — A, B, and C. All types of assets are tangible property used in the trade or business of USP and with respect to which a deduction is allowable under section 167. The production of income from A assets is DEI with respect to X and Y. Thus, the A assets are partnership specified tangible property with respect to X and Y, and USP includes a proportionate amount of the adjusted bases of all A assets in calculating each partner's partnership QBAL. The production of income from B assets is DEI with respect to X. However, with respect to Y, the production of income from B assets is non-DEI. Thus, the B assets are partnership specified tangible property with respect to X only, and USP includes a proportionate amount of the adjusted bases of all B assets only in calculating X's partnership QBAL. The C assets are dual-use property, because the production of only part of the income from the C assets is DEI with respect to X and Y. Thus, the C assets are partnership specified tangible property with respect to both X and Y, but USP includes a proportionate amount of the adjusted bases of all C assets in calculating each partner's partnership QBAL only in the proportion that the amount of the gross income included in DEI produced with respect to the C assets bears to the total amount of gross income produced with respect to the C assets.



## Section 2. Information to Determine Foreign-Derived Deduction Eligible Income on Form 8993

Foreign-derived gross receipts means, with respect to a partnership, gross receipts of the partnership for the partnership's tax year that are used to figure gross FDDEI as defined in Regulations section 1.250(b)-1.

Each place where general property is listed refers to amounts connected to the sale, lease, exchange, or other disposition of general property to a foreign person and, as established to the satisfaction of the Secretary, is for a foreign use as defined in Regulations sections 1.250(b)-3 and 1.250(b)-4(d). The term general property means any property other than intangible property, a security (as defined in section 475(c)(2)), an interest in a partnership, trust, or estate, or a commodity described in section 475(e)(2) (A) that is not a physical commodity or a commodity described in section 475(e)(2) (B) through (D).

Each place where intangible property is listed refers to amounts connected to the sale, license, exchange, or other disposition of intangible property to a foreign person and, as established to the satisfaction of the Secretary, is for a foreign use as defined in Regulations sections 1.250(b)-3 and 1.250(b)-4(d)(2).

Each place where services are listed refers to amounts connected to services that, as established to the satisfaction of the Secretary, are provided to any person, or with respect to property, located outside the United States as defined in Regulations section 1.250(b)-5.

If a transaction includes both a sales component and a service component, the transaction is classified as either a sale or as a service according to the overall predominant character of the transaction. See Regulations section 1.250(b)-3(d).

For purposes of determining a domestic corporation's deductions that are properly allocable to gross FDDEI, the corporation's deductions are allocated and apportioned to gross FDDEI under the rules of Regulations sections 1.861-8 through 1.861-14T and 1.861-17 by treating section 250(b) as an operative section described in Regulations section 1.861-8(f). See Regulations section 1.250(b)-1(d)(2).

**Line 9. Gross receipts.** Enter the amount, if any, of the partnership's foreign-derived gross receipts separately for aggregate sales of general property, aggregate sales of intangible property, and aggregate services. Foreign-derived

gross receipts means gross receipts that are used to figure gross FDDEI as defined in Regulations section 1.250(b)-1(c)(16).

**Line 10. COGS.** Enter the amount of cost of goods sold attributable to the amount(s) on line 9.

For purposes of this form, when figuring FDDEI, cost of goods sold includes the cost of goods sold to customers, and adjusted basis of non-inventory property sold or otherwise disposed of in trade or business.

In making that determination, attribute costs of goods sold to gross receipts using a reasonable method in accordance with Regulations section 1.250(b)-1(d)(1).

Cost of goods sold must be attributed to gross receipts with respect to gross DEI or gross FDDEI regardless of whether certain costs included in cost of goods sold can be associated with activities undertaken in an earlier tax year (including a year before the effective date of section 250).

**Line 11. Allocable deductions.** Enter the amount of the allocable deductions. See Regulations section 1.250(b)-1(d)(2) for more details. Enter the amounts of interest and R&E expenses on lines 13 and 16, respectively. Deductions are determined without regard to sections 163(j), 170(b)(2), 172, 246(b), and 250.

**Column (a). General Property.** Enter the amount of the deductions that are allocated and apportioned to gross FDDEI from all sales of general property.

**Column (b). Intangible Property.** Enter the amount of the deductions that are allocated and apportioned to gross FDDEI from all sales of intangible property.

**Column (c). Services.** Enter the amount of the deductions that are allocated and apportioned to gross FDDEI from all services.

**Line 12. Other apportioned deductions.** Enter all other apportioned deductions that relate to gross FDDEI that are not otherwise included on lines 11, 13, and 16. If a deduction does not bear a definite relationship to a class of gross income constituting less than all of gross income, it shall ordinarily be treated as definitely related and allocable to all of the taxpayer's gross income, including gross DEI and gross FDDEI, except where otherwise directed in the regulations.

## Section 3. Other Information for Preparation of Form 8993

**Line 13. Interest deduction.** The term interest refers to the gross amount of interest expense incurred by a taxpayer in a given year. Interest expense includes any expense that is currently deductible under section 163 (including original issue

discount), and interest equivalents. See Temporary Regulations sections 1.861-9T(b) for the definition of interest equivalents and 1.861-9T(c) for sections that disallow, suspend, or require the capitalization of interest deductions.

**Line 13A and 13B. Interest expense specifically allocable under Regulations sections 1.861-10(e) and -10T.** Apart from interest expense entered on line 13A, enter on line 13B interest expense that is directly allocable under Temporary Regulations section 1.861-10T to income from specific partnership property. Such interest expense is treated as directly allocable to income generated by such partnership property. See Temporary Regulations section 1.861-9T(e)(1).

**Line 13C.** Enter all interest deductions not otherwise included on lines 13A and 13B.

**Line 14. Interest expense apportionment factors.** This line requires the partnership to report information that a partner will use to allocate and apportion its interest expense for FDII purposes.

Interest deductions are apportioned to gross DEI and FDDEI based ordinarily on the tax book value of the taxpayer's assets. See Regulations section 1.861-9T(g)(1)(i). A taxpayer can use either the tax book value or the alternative tax book value of its assets. See Regulations section 1.861-9(i). Under both methods, the partner uses the partnership's inside basis in its assets, including adjustments required under sections 734(b) and 743(b). See Regulations sections 1.861-9(e)(2) and -9(e)(3). When reporting the asset that is the basis of stock in nonaffiliated 10%-owned corporations, adjust such amount for E&P. See Regulations section 1.861-12(c)(2)(i)(A).

The total interest deductions for the members of the corporation's affiliated group are allocated and apportioned to the statutory and residual groupings under proposed, final, and Temporary Regulations sections 1.861-8 through 1.861-14.

A corporate partner with a less than 10% interest in a partnership shall directly allocate its distributive share of the partnership's interest expense to its distributive share of partnership gross income. See Regulations section 1.861-9(e)(4).

**Note.** The Total Column is not a sum of DEI and FDDEI but rather refers to the partnership's specific line totals (that is, that would also include non-DEI).

**Line 14A.** Enter the amount of the average of the beginning-of-year and end-of-year inside basis in the

partnership's assets. See Regulations section 1.861-9(g)(2)(i)(A).

**Line 14B.** Enter the amount of the average of the beginning-of-year and end-of-year inside basis adjustments under sections 734(b) and 743(b).

**Lines 14C and 14D.** Enter the amount of the reductions in the partnership's asset values to reflect the partnership's directly allocable interest under Regulations section 1.861-10(e) and Temporary Regulations section 1.861-10T. See also Temporary Regulations section 1.861-9T(e)(1).

**Line 14E.** Enter the amount of the average value of assets excluded from the apportionment formula. See section 864(e)(3).

**Lines 15 and 16. R&E expenses apportionment factors.** These lines require the partnership to report information that a partner will use to allocate and apportion its R&E expense for FDII purposes. R&E expenses deducted under section 174 are definitely related to all income reasonably connected with relevant broad product categories of the taxpayer and are allocable to all items of gross income as a class related to such product categories. The product categories are generally determined by reference to the three-digit SIC code. R&E expenses are apportioned between the statutory and residual groupings based on an analysis of the taxpayer's gross receipts from certain sales, leases, licenses, and services. See Regulations section 1.861-17. The exclusive apportionment rule in Regulations section 1.861-17(b) does not apply for purposes of apportioning R&E to gross DEI and gross FDDEI.

R&E expenses are allocated and apportioned by the partner. This requires that the partnership report to its partners the gross receipts related to certain income within the statutory and residual groupings within a SIC code and the partner's distributive share of the partnership's R&E deductions, if any, connected with the SIC codes.

**Line 15. R&E gross receipts by SIC code.** Enter the gross receipts that resulted in gross income for each category, DEI, FDDEI, and then Total Gross Receipts. Note that the Total Column is not a sum of DEI and FDDEI but rather refers to all the partnership's gross receipts. Such gross receipts include both the partnership's sales and certain other parties' sales. See Regulations section 1.861-17(d). Gross receipts from certain transactions of parties both controlled or uncontrolled by the partnership may be included in line 15. See generally Regulations section 1.861-17(d).

**Line 16.** Enter the amount of the amount of R&E expense by SIC code.

## Schedule K-2, Part V, and Schedule K-3, Part V (Distributions From Foreign Corporations to Partnership)

**Note.** Certain partners will use the following information, in combination with other information known to the partners, including Form 5471, Schedule P, to exclude from gross income distributions to the extent that they are attributable to PTEP in their annual PTEP accounts and report foreign currency gain or loss with respect to the PTEP on Forms 1040 and 1120. If eligible, partners will also use this information to figure and claim a dividends received deduction under section 245A on Form 1120.

Use Part V of Schedule K-2 to report the distributions made by foreign corporations to the partnership.

Use Part V of Schedule K-3 to report the partner's share of the amounts reported on Part V of the Schedule K-2.

**Rows A—O.** Use rows A-O to report information with respect to each distribution by a foreign corporation with respect to its stock that the partnership (directly or through pass-through entities) owns (within the meaning of section 958) other than solely by reason of applying section 318(a)(3) (providing for downward attribution) as provided in section 958(b). Each row should relate to the partnership's direct ownership of stock in the foreign corporation or direct ownership of the ownership interests in a pass-through entity that (directly or through other pass-through entities) owns (within the meaning of section 958) stock in the foreign corporation other than solely by reason of applying section 318(a)(3) (providing for downward attribution) as provided in section 958(b). For example, if a partnership (upper-tier partnership) directly owns 50% of the foreign corporation's stock and owns 50% of the foreign corporation's stock through another partnership (lower-tier partnership), then distributions by the foreign corporation to both the upper-tier partnership and the lower-tier partnership are to be reported on separate rows on the upper-tier partnership's Part V of Schedules K-2 and K-3 (Form 1065). If the partnership owns stock of a foreign corporation through another partnership (lower-tier partnership) from which it receives a Part V of Schedule K-3 (Form 1065 or 8865), the partnership must replicate each line of the Part V, Schedule K-3 (Form 1065 or 8865) on its Part V of Schedules K-2 and K-3 (Form 1065). Rows for distributions with respect to a partnership's direct ownership of foreign corporation stock should be listed before rows for distributions with respect to a partnership's ownership through a

pass-through entity of foreign corporation stock.

If the partnership is a domestic partnership, the partnership may have annual PTEP accounts with respect to the foreign corporation, or the foreign corporation may have E&P that, when distributed, are excludable from the partnership's gross income under section 1293(c). Do not report distributions to the extent that they are attributable to PTEP in annual PTEP accounts of the partnership or to E&P that are excludable from the partnership's gross income under section 1293(c). Distributions by the foreign corporation to the partnership that are attributable to PTEP in annual PTEP accounts of the partnership should be properly reflected on the Schedules J (Form 5471) for the foreign corporation. The partnership should provide this information to its partners as appropriate.

However, to the extent a distribution is attributable to PTEP in an annual PTEP account of the partnership with respect to a foreign corporation, or attributable to E&P that are excludable from the partnership's gross income under section 1293(c), that corresponds to a tax year of the foreign corporation that ended with or within a tax year of the partnership (i) that began after December 31, 2012, and (ii) for which an election under Regulations section 1.1411-10(g) was not made by the partnership (such PTEP, "NII PTEP"), append Worksheet 3 to Schedule K-2 and Worksheet 4 to each K-3 in the format shown, adding additional rows as necessary for each distribution by a foreign corporation. For more information about net investment income and net investment income tax relating to CFCs and QEFs, see Regulations section 1.1411-10.

**Note.** If additional rows are required, attach statements to Schedules K-2 and K-3 that look like the current version of Schedules K-2, Part V, and Schedule K-3, Part V, respectively.

**Column (b).** Enter the EIN or reference ID number of the distributing foreign corporation. Do not enter "FOREIGNUS" or "APPLIED FOR." For basic information about reference ID numbers (including the requirements as to the characters permitted), see the Instructions for Form 1118.

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

**Column (d).** Enter the applicable three-character alphabet code for the foreign corporation's functional currency using the ISO 4217 standard. These codes are available at [ISO.org/ISO-4217-currency-codes.html](https://www.iso.org/ISO-4217-currency-codes.html).

**Worksheets 3 and 4**

Worksheet 3 (Schedule K-2)						
(a) Name of distributing foreign corporation	(b) EIN or reference ID number	(c) Date of distribution	(d) Functional currency of distributing foreign corporation	(e) Amount of NII PTEP in functional currency	(f) Spot rate (functional currency to U.S. dollars)	(g) Amount of NII PTEP in U.S. dollars

Worksheet 4 (Schedule K-3)						
(a) Name of distributing foreign corporation	(b) EIN or reference ID number	(c) Date of distribution	(d) Functional currency of distributing foreign corporation	(e) Partner's share of NII PTEP in functional currency	(f) Spot rate (functional currency to U.S. dollars)	(g) Partner's share of NII PTEP in U.S. dollars

**Note.** Columns (e) and (f) are reported in functional currency.

**Column (e).** This represents the partnership's share of the amount distributed in functional currency. See Form 5471, Schedule R, column (c).

**Column (f).** This represents the partnership's share of the amount of E&P distributed in functional currency. See Form 5471, Schedule R, column (d). The total of the amounts reported in column (f) with respect to a distributing foreign corporation should equal the partnership's share of the total reported on line 9 of all Schedules J on a separate category of income basis as reported in Form 5471 Schedule J TOTAL filed with respect to the distributing foreign corporation.

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

**Column (h).** Enter the amount of the distribution in U.S. dollars. Translate column (e) using the spot rate reported in column (g).

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

**Column (j).** If the distributing foreign corporation is a qualified foreign corporation, determined without regard to section 1(h)(11)(C)(iii)(I), check the box. See section 1(h)(11)(C).

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

**Note.** Certain partners will use the following information to complete Form 8992 and Forms 1040 and 1120 with respect to income inclusions under section 951(a) (subpart F income inclusions), section 951(a)(1)(B) inclusions, and section 951A inclusions. Schedules K-2 and K-3, Part VI must be completed with respect to a CFC if the partnership owns (within the meaning of section 958) stock of the CFC, unless the partnership owns stock of the CFC solely by reason of applying section 318(a)(3) (providing for downward attribution) as provided in section 958(b).

Generally, a foreign corporation is a CFC if more than 50% of either the total combined voting power of all classes of stock entitled to vote, or the total value of the stock of the corporation, is owned (within the meaning of section 958(a)) or is considered as owned by applying the rules of section 958(b) by U.S. shareholders. For this purpose, a U.S. shareholder is a U.S. person (as defined in section 957(c)) who owns (within the meaning of section 958(a)), or is considered as owning by applying the rules of ownership of section 958(b), 10% or more of the total combined voting power of all classes of stock entitled to vote, or 10% or more of the total value of shares of all classes of stock of such foreign corporation.

If the partnership is a domestic partnership that applies Proposed

Regulations section 1.958-1(d)(1) to treat it as not owning stock of a foreign corporation within the meaning of section 958(a) for purposes of section 951, or the partnership is not a U.S. shareholder of a foreign corporation, the subpart F income inclusions and section 951(a)(1)(B) inclusions that are reported in Schedule K-2, Part VI, columns (e) and (f), are not inclusions of the partnership. Schedule K-3, Part VI, columns (e) and (f) report the information partners' will need to figure and report their subpart F income inclusions and section 951(a)(1)(B) inclusions.

**Note.** If the partnership is a domestic partnership that does not apply Proposed Regulations section 1.958-1(d)(1) and is a U.S. shareholder of a foreign corporation, then any subpart F income inclusions and section 951(a)(1)(B) inclusions are inclusions of the partnership, which are therefore not reported in Schedules K-2 and K-3, Part VI, columns (e) and (f), and are instead reported in Schedules K and K-1, line 11, *Other income (loss)*.

**Exception.** Schedules K-2 and K-3, Part VI do not need to be completed with respect to a CFC if the partnership knows that it does not have a direct or indirect partner (through pass-through entities only) that is a U.S. shareholder of the CFC required to include in gross income a subpart F income inclusion and/or section 951(a)(1)(B) inclusion with respect to the CFC, or figure section 951A inclusions by taking into account GILTI items (defined below) of the CFC.

Use Schedule K-2, Part VI, to report information the partners need to figure their subpart F income inclusions, section 951(a)(1)(B) inclusions, and their shares of items of CFCs needed to determine the partners' GILTI inclusions, with respect to CFCs owned (within the meaning of section 958) by the partnership.



Use Schedule K-3, Part VI, to report the partner's share of the amounts needed to figure its subpart F income inclusions, section 951(a)(1)(B) inclusions, and its share of items of CFCs needed to determine the partner's GILTI inclusion, with respect to CFCs owned (within the meaning of section 958) by the partnership.

If the partnership must complete Part VI of Schedules K-2 and K-3 with respect to a CFC, then the partnership must complete Part VI of Schedules K-2 and K-3 by assuming that each partner in the partnership is a U.S. shareholder of the CFC and is required to include in gross income its share of the CFC's subpart F income, an amount determined under section 956 with respect to the CFC (section 951(a)(1)(B) inclusion), and its GILTI.

A partner's GILTI is figured based upon its share of the following amounts for each CFC with respect to which it is a U.S. shareholder: tested income, tested loss, QBAL, tested loss QBAL amount, tested interest income, and tested interest expense (collectively, GILTI items) (a CFC's subpart F income and GILTI items, CFC items).

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

A partner's share through its ownership in the partnership of subpart F income and GILTI items is generally anticipated to be figured by multiplying the percentage in column (d) by the amount of subpart F income or GILTI item, respectively. For example, in general, a partner's share through its ownership interest in the partnership of tested income in column (i) is anticipated to be figured by multiplying the percentage in column (d) by the amount of tested income in column (g). If the partner's share through its ownership in the partnership of subpart F income or GILTI items is not figured by multiplying the percentage in column (d) by the amount of subpart F income or GILTI item, respectively (for example, because of special allocations), then, instead of entering a percentage in column (d) for that CFC, attach a statement to Schedules K-2 and K-3 explaining the partner's share through its ownership in the partnership of the CFC's subpart F and GILTI items.

**Line a.** Complete a separate Part VI for each applicable separate category of income. However, all GILTI items must be reported on only one Part VI. If GILTI items include passive category income, report all GILTI items on the Part VI completed for passive category income; otherwise, report all GILTI items on the Part VI completed for general category income. Enter the appropriate code on line a.

**Note.** The other reporting requirements of a partnership with respect to reporting income by separate category do not change by reason of the partnership reporting GILTI items that include general category income on a Part VI completed for passive category income.

### Codes for Categories of Income

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

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

**Line 1.** Use lines A—K to report information with respect to CFCs owned (within the meaning of section 958) by the partnership, and for which Part VI of Schedules K-2 and K-3 must be completed. If the partnership owns a CFC through another partnership (lower-tier partnership) from which it receives a Part VI of Schedule K-3 (Form 1065 or 8865), the partnership must replicate each line of Part VI, Schedule K-3 (Form 1065 or 8865) that is related to the CFC on its Part VI, Schedule K-2 (Form 1065). For example, if a partnership directly owns 50% of the CFC's stock and owns 50% of the CFC's stock through a lower-tier partnership, the CFC should be listed on two lines with one line related to the partnership's direct ownership and the other line related to the partnership's ownership through the lower-tier partnership. Lines related to a partnership's direct ownership of CFCs should be listed before lines related to a partnership's non-direct ownership of CFCs. If additional lines are required, attach a statement to Schedules K-2 and K-3 that looks like the current version of Part VI.

**Column (a).** Enter the name of each CFC for which Part VI must be completed.

**Column (b).** Enter the EIN or reference ID number of the CFC. Do not enter "FOREIGNUS" or "APPLIED FOR." For basic information about reference ID

numbers (including the requirements as to the characters permitted), see the Instructions for Form 1118.

**Column (c).** Enter the end of the CFC's tax year using the format YYYYMMDD.

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

**Note.** A domestic partnership that does not apply Proposed Regulations section 1.958-1(d)(1) and is a U.S. shareholder of a foreign corporation listed in column (a) does not report amounts in columns (e) or (f).

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

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

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

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

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

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

**Column (j).** Enter the aggregate share of the tested loss listed in column (h) for each CFC with tested loss.

**Column (k).** If the CFC has a tested loss in column (h), enter zero. If the CFC has tested income in column (g), enter the aggregate share of QBAL. A CFC's QBAL

is reported on line 8 of Schedule I-1 (Form 5471).

**Column (l).** If the CFC has tested income in column (g), enter zero. If the CFC has a tested loss in column (h), enter the aggregate share of the CFC's tested loss QBAI amount. See Regulations section 1.951A-4(b)(1)(iv). A CFC's tested loss QBAI amount is reported on line 9c of Schedule I-1 (Form 5471) which must be translated to U.S. dollars.

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

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

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

**Note.** Partners will use the following information to complete Form 8621 and/or determine income inclusions with respect to the PFICs reported on Schedules K-2 and K-3, Part VII.

Except as otherwise provided, Schedules K-2 and K-3, Part VII must be filed by every partnership that owns PFIC stock, directly or indirectly, unless the partnership knows it has no direct or indirect partners that are U.S. persons, including U.S. persons that own an indirect interest in the partnership through one or more foreign entities. However, a domestic partnership that has elected to treat a PFIC as a pedigreed qualified electing fund (QEF), made a mark-to-market (MTM) election with respect to a PFIC applicable to the partnership's tax year, or made a qualifying insurance corporation (QIC) election with respect to a PFIC for the partnership's tax year is not required to complete Schedules K-2 and K-3, Part VII with information regarding such PFIC if the partnership files Form 8621 for that PFIC. Additionally, a domestic partnership that satisfies the deemed election requirements of Regulations section 1.1297-4(d)(5)(iv) with respect to a PFIC eligible for a QIC election is not required to complete Schedules K-2 and K-3, Part VII with respect to such PFIC.

Use Schedule K-2, Part VII to report certain information with respect to any PFIC owned, directly or indirectly, by the partnership for which reporting is required, including PFICs with respect to which no QEF or MTM election has been made, and unpedigreed QEFs (section 1291 funds), and PFICs with respect to which pedigreed QEF, MTM, QIC, or other elections have been, or may be, made,

and for which the partnership is not filing a Form 8621.

Use Schedule K-3, Part VII to report the partner's share, through its ownership in the partnership, of the amounts reported on Schedule K-2, Part VII.

Complete only one line on both Sections 1 and 2 for each PFIC for which reporting on Schedule K-2, Part VII and Schedule K-3, Part VII is required. Each line completed for a PFIC in Section 1 should correspond to the same line on Section 2. If there is no information to report with respect to a PFIC in Section 2, columns (c) through (o), only complete the name and EIN of the PFIC in Section 2, columns (a) and (b), and leave columns (c) through (o) blank for that PFIC. For additional information on determining indirect ownership of PFICs, see Regulations section 1.1291-1(b)(8).

The partnership may have additional required information with respect to a PFIC for certain columns (for example, scenarios where the partnership may have multiple different events with respect to the PFIC in the same tax year, such as multiple dates of acquisitions of, or distributions with respect to, the PFIC stock). In that case, complete Schedules K-2 and K-3, Part VII with the first of such entries for a PFIC and attach a statement including the remaining entries for each such PFIC to Schedule K-2, Part VII and its corresponding Schedules K-3, Part VII with the information contained in *Table 4* and/or *Table 5*.

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

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

**Columns (a) through (c).** Enter the name, U.S. EIN or reference ID number, and address of each PFIC held directly or indirectly by the partnership during its tax year. Do not enter "FOREIGNUS" or "APPLIED FOR."

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

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

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

**Codes for Classes of PFIC Shares**

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

**Column (g).** If the partnership acquired any PFIC shares during its tax year, provide the date(s) of acquisition of such shares using the format YYYYMMDD. If the partnership acquired no shares in a particular PFIC during its tax year, leave this column blank with respect to that PFIC.

**Note.** If the partnership acquired shares in a PFIC on multiple dates during the tax year, attach a statement with the information contained in *Table 4* to Schedule K-2, Part VII and its corresponding Schedules K-3, Part VII providing such dates.

**Table 4**

Additional Information for Section 1, Part VII		
General Information		Annual Information
(a) Name of PFIC	(b) EIN or reference ID number	(g) Dates PFIC shares acquired during tax year (if applicable)

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

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

**Note.** A partner may need additional information not required to be reported on this Schedule K-2, Part VII (or the partner's Schedule K-3, Part VII) from the partnership with respect to the value of the PFIC shares as of a particular date to aid the partner in making certain elections under Regulations section 1.1291-10, 1.1297-3, or 1.1298-3.

**Column (j).** If the partnership is a domestic partnership and has made any of the following elections with respect to the PFIC, indicate which election was made using the following codes. If the partnership has not made an election with respect to the PFIC, leave this column blank with respect to that PFIC.

### Partnership Election Codes

Code	Partnership Election Type
QEF	Qualified Electing Fund Election
MTM	Mark-to-Market Election
QIC	Qualifying Insurance Corporation Election

**Note.** If the partnership is a domestic partnership and has made a pedigreed QEF, MTM, or QIC election with respect to a PFIC, and the partnership files Form 8621 for that PFIC, it is not required to report information regarding that PFIC on Schedule K-2 or K-3, Part VII.

**Column (k).** Check the box if the foreign corporation has indicated that it has documented eligibility to be treated as a QIC. See section 1297(f) and Regulations section 1.1297-4 for additional information on QICs.

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

**Column (m).** Check the box if the PFIC also constitutes a CFC within the meaning of section 957 (PFIC/CFC).

**Note.** If the PFIC is a PFIC/CFC, a partner may need certain additional information with respect to the PFIC/CFC's E&P not required to be reported on this Schedule K-2, Part VII (or the partner's Schedule K-3, Part VII) from the partnership to aid the partner in making certain elections under Regulations section 1.1291-9, 1.1297-3, or 1.1298-3.

**Column (n).** Complete column (n) in the following manner.

Completing column (n), Section 1, Part VII	
IF...	THEN...
<ul style="list-style-type: none"> <li>this is the first year of the partnership's holding period in stock of the foreign corporation, and</li> <li>the partnership has determined (directly or otherwise) that the foreign corporation is a PFIC under the income test or asset test of section 1297(a),</li> </ul>	check the box.
<ul style="list-style-type: none"> <li>the foreign corporation was a PFIC in a prior tax year of the partnership's holding period, and</li> <li>the partnership has not determined (directly or otherwise) the foreign corporation is a "former PFIC" within the meaning of Regulations section 1.1291-9(j)(2) (iv),</li> </ul>	check the box.
<ul style="list-style-type: none"> <li>the foreign corporation was a PFIC in a prior tax year of the partnership's holding period, and</li> <li>the partnership has determined (directly or otherwise) the foreign corporation is a "former PFIC" within the meaning of Regulations section 1.1291-9(j)(2) (iv),</li> </ul>	do not check the box.

**Note.** If the foreign corporation is a "former PFIC" within the meaning of Regulations section 1.1291-9(j)(2)(iv), a partner may need additional information not required to be reported on this Schedule K-2, Part VII (or the partner's Schedule K-3, Part VII) from the partnership with respect to the PFIC to aid the partner in making certain elections under Regulations section 1.1298-3.

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

**Columns (a) and (b).** Enter the name and U.S. EIN (or reference ID number) of each PFIC held directly or indirectly by the partnership during its tax year. Do not enter "FOREIGNUS" or "APPLIED FOR."

#### QEF Information

**Columns (c) and (d).** Enter the partnership's share of the total ordinary earnings and net capital gain (as defined in Regulations section 1.1293-1(a)(2)) of the PFIC for the partnership's tax year in

which or with which the tax year of the PFIC ends in columns (c) and (d), respectively. The PFIC should provide the partnership with a statement that provides information to assist the partnership in determining these amounts. See Regulations section 1.1295-1(g) for additional information on annual PFIC statements.

A domestic partnership must provide this information for any PFIC with respect to which it has made a pedigreed QEF election but for which it does not file Form 8621, and for any PFIC it has elected to treat as an unpedigreed QEF. A foreign partnership must provide this information if it has received an annual information statement with respect to the PFIC, unless the partnership knows that no direct or indirect partner has made, or intends to make, a QEF election with respect to the PFIC; the partnership may obtain this knowledge in any reasonable manner, provided the partnership retains a written record in its books and records.

**Note.** If the partnership is a domestic partnership and has made a pedigreed QEF election with respect to a PFIC, and if the partnership files Form 8621 for that PFIC, the partnership is not required to report information regarding that PFIC on Schedule K-2 or K-3, Part VII. The partnership should report its inclusion of its share of the QEF's ordinary earnings and net capital gain on Form 1065, Schedule K, and report the partners' shares of such amounts on Schedule K-1, Part III. However, certain partners which receive a distributive share of the partnership's QEF inclusions may be entitled to claim foreign tax credits under section 960 with respect to such inclusions. See the instructions for Schedules K-2 and K-3, Part VIII, regarding deemed paid foreign tax credits under section 960, including for inclusions with respect to a QEF under section 1293(f).

**Note.** Certain partners may need additional information not required to be reported on this Schedule K-2, Part VII (or the partner's Schedule K-3, Part VII) from the QEF with respect to its computation of its net capital gain (as defined in Regulations section 1.1293-1(a)(2)) to perform certain computations under section 1061 or the regulations thereunder. The partnership may aid in obtaining such information from the QEF, though the QEF is not required to provide such information. See section 1061 and Regulations sections 1.1061-4 and 1.1061-6 for more information.

#### MTM Information

**Columns (e) and (f).** Enter the fair market value of the PFIC stock at the



**Table 5**

Additional Information for Section 2, Part VII									
General Information		Section 1291 and Other Information							
(a) Name of PFIC	(b) EIN or reference ID number	(g) Dates PFIC shares were acquired	(h) Amount of cash and fair market value of property distributed by PFIC during the current tax year (if applicable)	(i) Dates of distribution	(j) Total creditable foreign taxes attributable to distribution by PFIC	(l) Dates PFIC shares disposed of during tax year (if applicable)	(m) Amount realized on disposition of PFIC shares	(n) Tax basis of PFIC shares on date of disposition	(o) Gain or (loss) on disposition of PFIC shares

beginning and end of the partnership’s tax year in columns (e) and (f), respectively. If any shares of the PFIC were acquired during the tax year for which the Form 1065 is being filed, the fair market value in column (e) should reflect the fair market value of those shares as of the date of acquisition. A domestic partnership must provide this information for any PFIC with respect to which it has made an MTM election but for which it does not file Form 8621. A foreign partnership must provide this information unless it knows that no direct or indirect partner has made, or intends to make, an MTM election with respect to the PFIC; the partnership may obtain this knowledge in any reasonable manner, provided the partnership retains a written record in its books and records.

**Note.** If the partnership is a domestic partnership and has made an MTM election with respect to a PFIC, and if the partnership files Form 8621 for that PFIC, the partnership is not required to report information regarding that PFIC on Schedule K-2 or K-3, Part VII. The partnership should report its MTM gain or loss on Form 1065, Schedule K, and report the partners’ shares of such amounts on Schedule K-1, Part III.

**Note.** If the partnership is a domestic partnership that has made an MTM election with respect to a PFIC but does not file Form 8621 for that PFIC, a partner may need additional information not required to be reported on this Schedule K-2, Part VII (or the partner’s Schedule K-3, Part VII) regarding its share of the partnership’s adjusted tax basis in the partnership’s MTM PFIC stock in order to complete Form 8621.

**Section 1291 and Other Information**

**Note.** Generally, this information is to assist shareholders of section 1291 funds in satisfying any information reporting obligations and in computing income inclusions with respect to section 1291 funds. However, this information may be relevant to PFICs with respect to which a pedigreed QEF, MTM, or other election has been made by the partnership, partner, or other indirect PFIC shareholder. Accordingly, the partnership must complete columns (g) through (o) with respect to each PFIC for which reporting on Schedules K-2 and K-3, Part VII is required. However, note the instructions for column (k) regarding reporting distributions from PFICs with respect to which the partnership has made a pedigreed QEF or MTM election and for which the partnership does not file Form 8621.

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

**Note.** If the partnership initially acquired various blocks of stock in a PFIC on multiple dates, attach a statement with the information contained in *Table 5* to Schedule K-2, Part VII and its corresponding Schedules K-3, Part VII providing such dates.

**Column (h).** Enter the amount of each distribution of cash and/or the fair market value of any other property distributed to the partnership by the PFIC during the tax year, if any.

**Note.** Deemed distributions by QEFs do not need to be reported on this

Schedule K-2, Part VII (or the partner’s Schedule K-3, Part VII). However, partners which have made, or intend to make, an election under section 1294, and which are deemed to have received a distribution from the QEF, may require this information to complete any computations under section 1294 (including for Form 8621, if required). See section 1294(f) and Regulations section 1.1294-1T for additional information.

**Note.** If the partnership received distributions from a PFIC on multiple dates during the tax year, attach a statement with the information contained in *Table 5* to Schedule K-2, Part VII and its corresponding Schedules K-3, Part VII providing the amount and/or fair market value of each distribution.

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

**Note.** If the partnership received distributions from a PFIC on multiple dates during the tax year, attach a statement with the information contained in *Table 5* to Schedule K-2, Part VII and its corresponding Schedules K-3, Part VII providing the dates of each distribution.

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

**Note.** Creditable foreign taxes entered in column (j) do not include taxes attributable to QEF inclusions under section 1293(f). Enter only creditable foreign taxes within the meaning of section 1291(g) in column (j). See the instructions for Schedules K-2 and K-3, Part VIII regarding deemed paid foreign tax credits under section 960, including for inclusions with respect to a QEF under section 1293(f).

**Note.** If the partnership received distributions from a PFIC on multiple dates during the tax year, attach a statement with the information contained in *Table 5* to Schedule K-2, Part VII and its corresponding Schedules K-3, Part VII providing the amount of any foreign taxes attributable to each distribution.

**Column (k).** Enter the total amount of distributions the partnership received from the PFIC in the 3 preceding tax years, or, if shorter, the total amount of distributions the partnership received during its holding period of the PFIC stock. However, do not enter any amount in this column with respect to a PFIC for which the partnership has made a pedigreed QEF or MTM election and for which the partnership does not file Form 8621.

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

**Note.** If the partnership disposed of stock in a PFIC on multiple dates during the tax year, attach a statement with the information contained in *Table 5* to Schedule K-2, Part VII and its corresponding Schedules K-3, Part VII providing the dates of each disposition.

**Column (m).** If the partnership disposed of any block of stock in the PFIC during the partnership's tax year, enter the amount realized by the partnership on each disposition.

**Note.** If the partnership disposed of stock in a PFIC on multiple dates during the tax year, attach a statement with the information contained in *Table 5* to Schedule K-2, Part VII and its corresponding Schedules K-3, Part VII providing the amount realized by the partnership on each disposition.

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

**Schedule K-3.** Enter the partner's share, through its ownership in the partnership, of the partnership's tax basis in the PFIC shares. The partner's share of the basis in the PFIC shares should include any applicable adjustments

specific to the partner, such as section 743(b) adjustments or adjustments made under the PFIC regime. See sections 1293(d) and 1296(b), and Regulations sections 1.1291-9, 1.1291-10, 1.1297-3, and 1.1298-3 for adjustments made under the PFIC regime.

**Note.** If the partnership disposed of stock in a PFIC on multiple dates during the tax year, attach a statement with the information contained in *Table 5* to Schedule K-2, Part VII and its corresponding Schedules K-3, Part VII providing the tax bases to the partnership and partner with respect to each disposition.

**Column (o).** Enter the partnership's gain or loss on the disposition of PFIC shares. This equals column (m) minus column (n).

**Note.** If the partnership disposed of stock in a PFIC on multiple dates during the tax year, attach a statement with the information contained in *Table 5* to Schedule K-2, Part VII and its corresponding Schedules K-3, Part VII providing the gain or loss to the partnership and partner on each disposition.

### **Schedule K-2, Part VIII (Partnership's Interest in Foreign Corporation Income (Section 960)), and Schedule K-3, Part VIII (Partner's Interest in Foreign Corporation Income (Section 960))**

**Note.** Certain partners will use the following information to figure a deemed paid foreign tax credit on Form 1118.

**Reporting currency.** Report all amounts on Part VIII in functional currency.

The partnership must complete a separate Schedule K-2, Part VIII, for each CFC with respect to which it has a direct or indirect interest, unless the partnership does not have a direct or indirect partner that is a domestic corporation that is a U.S. shareholder or that is eligible to make a section 962 election to claim a deemed paid foreign tax credit with respect to such CFC. An indirect interest is one that the partnership owns through other pass-through entities. Indirect partners are partners who own the partnership through a foreign corporation or through a pass-through entity.

Schedule K-3, Part VIII, must be completed and provided to (a) direct partners that are domestic corporation U.S. shareholders or that may be eligible to make a section 962 election to claim a deemed paid foreign tax credit and (b) direct partners who may have direct or

indirect partners who may be eligible to claim the indirect credit.

A partnership that does not have or receive sufficient information or notice regarding a direct or indirect partner must presume the partner is eligible to claim the indirect credit and must complete the Schedules K-2 and K-3, accordingly.

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

To figure the foreign taxes deemed paid by a corporate U.S. shareholder, the income, deductions, and taxes of the CFC must be assigned to separate categories of income and then included in income groups within those separate categories using Form 5471, Schedule Q. See Regulations section 1.960-1(c)(1). The applicable separate categories of income are general category income, passive category income, and section 901(j) income. The income groups include the subpart F income groups, the tested income group, and the residual income group. Each single item of foreign base company income (as defined in Regulations section 1.954-1(c)(1)(iii)) is a separate subpart F income group. See Regulations section 1.960-1(d)(2)(ii)(B). The tested income group consists of tested income within a section 904 category. See Regulations section 1.960-1(d)(2)(ii)(C). The residual income group consists of any income not in the other income groups or in a PTEP group. See Regulations section 1.960-1(d)(2)(ii)(D). See Regulations section 1.960-3(c)(2) with respect to the PTEP groups. The PTEP groups are not reported on this Part VIII.

**Line 1 through 4.** The partnership's share of the CFC's net income in each of the subpart F income groups, tested income group, and residual income group by unit is reported on lines 1 through 4. The CFC has already figured its net income in each of these groups on Form 5471, Schedule Q, and the partnership need only report its share of such amount on Schedule K-2 and the partner's share of such amounts on Schedule K-3.

However, do not include in line 1 (or lines 1(a) through (i), lines (1), (2), etc.

under line 1) any amounts excluded from subpart F income under the high-tax exception in section 954(b)(4) ("subpart F high-tax exception"); these amounts are reported in line 4 (and on lines (1), (2), etc., under line 4).

Also, do not include in line 3 (or lines (1), (2), etc. under line 3) any amounts excluded under the GILTI high-tax exclusion in Regulations section 1.951A-2(c)(7) ("GILTI high-tax exclusion"), these amounts are reported in line 4 (and on lines (1), (2), etc., under line 4).

The PTEP groups are not reported on this Part VIII. Do not report by unit with respect to the following subpart F income groups: (i) international boycott income, (ii) bribes, kickbacks, and other payments, and (iii) section 901(j) income. Also do not report by unit with respect to the recaptured subpart F income group.

**Columns (i) and (ii).** On Schedule K-2, Part VIII, the partnership reports in column (ii) its share of the CFC's net income by income groups and by units as reported in column (xi) of Schedule Q (Form 5471). In column (i), consistent with the reporting requirement on Form 1118, enter the two-letter code (from the list at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes)) of each foreign country and U.S. possession within which income is sourced and/or to which taxes were paid or accrued. Do not enter "various" or "OC" for the country code. Do not enter a country in column (i) of line 5. See the instructions for line D for further information.

On Schedule K-3, Part VIII, the partnership reports each partner's share of

the net income in the income group by unit and country.

**Column (iii).** Do not enter amounts in column (iii).

**Line A.** On line A, enter the EIN or reference ID number of the CFC as listed on Form 5471. Do not enter "FOREIGNUS" or "APPLIED FOR." The partnership must check box 8 on Part I and attach to the Schedules K-2 and K-3 a Form 5471 for each CFC with respect to which it has a direct or indirect interest.

**Line B.** The partnership must file separate Schedules K-2 and K-3, Part VIII, to report the net income or loss of the CFC in each separate category. Use the applicable code from the table below.

### Category of Income Codes

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

**Line C.** With respect to passive category income, separate Schedules K-2 and K-3, Part VIII, must be completed for each applicable grouping under Regulations section 1.904-4(c). This includes the groups in Regulations section 1.904-4(c)(3) reported on Schedule Q (Form 5471).

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

### Passive Group Codes

Code	Passive Group
i	All passive income received during the tax year that is subject to a withholding tax of 15% or greater must be treated as one item of income. Regulations section 1.904-4(c)(3)(i).
ii	All passive income received during the tax year that is subject to a withholding tax of less than 15% (but greater than zero) must be treated as one item of income. Regulations section 1.904-4(c)(3)(ii).
iii	All passive income received during the tax year that is subject to no withholding tax or other foreign tax must be treated as one item of income. Regulations section 1.904-4(c)(3)(iii).
iv	All passive income received during the tax year that is subject to no withholding tax but is subject to foreign tax other than a withholding tax must be treated as one item of income. Regulation section 1.904-4(c)(3)(iv).

**Example 6.** In Year 1, USP, a domestic partnership, wholly owns foreign corporation CFC, with reference ID number 1234, and the CFC owns a foreign disregarded entity organized in Country X. CFC has two separate units, the foreign disregarded entity and the CFC itself. See [Tables for Example 6](#).

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



## Tables for Example 6

### Example 6. Foreign Source Income

For the Year 1 tax year, the separate units have the following foreign source income.			
	Tax	Country Code	Net Income
Country X Foreign Disregarded Entity (FDE) Passive Interest Income	20% withholding tax	XX	100u
CFC Passive Rental Income	10% withholding tax	YY	50u
CFC General Category Tested Income	No tax	ZZ	300u

### Example 6. Partnership USP's 1st Schedule K-2, Part VIII

USP completes Part VIII of Schedule K-2, as follows.			
A			
1234			
PAS			
i			
		(i) Country Code	(ii) Partnership's Share of Net Income
1	Subpart F Income Groups		
a	Dividends, interest, rents, royalties & annuities (Total)		
1	Country X FDE	XX	100u

### Example 6. Partnership USP's 2nd Schedule K-2, Part VIII

USP completes another Part VIII of Schedule K-2, as follows.			
A			
1234			
PAS			
ii			
		(i) Country Code	(ii) Partnership's Share of Net Income
1	Subpart F Income Groups		
a	Dividends, interest, rents, royalties & annuities (Total)		
1	CFC	YY	50u

### Example 6. Partnership USP's 3rd Schedule K-2, Part VIII

USP completes a third Part VIII of Schedule K-2, as follows.			
A			
1234			
GEN			
		(i) Country Code	(ii) Partnership's Share of Net Income
3	Tested Income Group (Total)		
1	CFC	ZZ	300u

**Line D.** If net income in an income group is sourced from more than one country, check the box on line D, and attach a statement to indicate that you have expanded Part VIII to report these additional countries on both Schedules K-2 and K-3.

**Example 7.** In Year 1, USP, a domestic partnership, wholly owns foreign corporation, CFC, with reference ID number 1234. USP has two domestic corporate partners. CFC has only one QBU, the CFC itself, and no other separate units. CFC has general category foreign source foreign base company

sales income (FBCSI) sourced in Country A of 100u and general category foreign source FBCSI sourced in Country B of 50u and general category foreign source FBCSI sourced in Country C of 30u. The country code for Country A is "AA," the country code for Country B is "BB," and the country code for Country C is "CC." See [Tables for Example 7](#).

**Example 7 Attachment (Expansion).** USP also completes Schedule K-3, Part VIII, with each partner's share of the partnership's net income in each subpart F income group. USP attaches to Schedule K-3 the same schedule it

attaches to Schedule K-2, however, with each partner's share of the income in each subpart F income group, by country.

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

**Line F.** If the foreign corporation has foreign oil and gas extraction income (FOGEl) or foreign oil related income (FORI), the partnership should check the box and complete a separate Part VIII indicating the amount of FOGEl and FORI in each grouping. The partnership should check box 2 on Part I and complete

## Tables for Example 7

### Example 7

USP completes Schedule K-2, Part VIII, as follows.			
A	1234		
B	GEN		
D	<input checked="" type="checkbox"/>		
		(i) Country Code	(ii) Partnership's Share of Net Income
1	Subpart F Income Groups		
f	Foreign base company sales income (total)		180u
(1)	CFC	AA	100u
(2)	CFC	BB	50u

### Example 7 Attachment (Expansion)

USP attaches to Schedule K-2 the following schedule to expand 1f to include another line under 1f.			
A	1234		
B	GEN		
D	<input checked="" type="checkbox"/>		
		(i) Country Code	(ii) Partnership's Share of Net Income
1	Subpart F Income Groups		
f	Foreign base company sales income (total)		180u
(3)	CFC	CC	30u

Schedule I (Form 1118). See the Instructions for box 2, Part I.

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

**Note.** Certain partners will use the following information to complete Form 8991. This Part IX of Schedules K-2 and K-3 must be completed by a partnership to assist its corporate partners in determining if they are subject to the Base Erosion and Anti-Abuse Tax (BEAT), and to figure their base erosion and anti-abuse tax, if any. This information includes the partner's share of the partnership's gross receipts, the partner's amount of base erosion payments made through the partnership, and the partner's base erosion tax benefits. The BEAT is generally levied on certain large corporations that have deductions and certain other items paid or accrued to foreign related parties (a base erosion payment) that are 3% of their total deductions or higher (2% in the case of certain banks or registered securities dealers), a determination referred to as the base erosion percentage test. Partnerships are not subject to the BEAT; however, corporate partners of a partnership that are applicable taxpayers

under Regulations section 1.59A-2 may be subject to the BEAT. Except for purposes of determining a partner's base erosion tax benefits under Regulations section 1.59A-7(d)(1), and whether a taxpayer is a registered securities dealer, BEAT determinations are made by the partner. See Regulations section 1.59A-7 for further information regarding the application of section 59A to partnerships and the Instructions for Form 8991 for additional information on whether a corporate partner is an applicable taxpayer subject to the BEAT.

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

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

**Exception for small partners.** Part IX of Schedule K-3 is not required to be

prepared by the partnership for small partners meeting the following three requirements.

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

See Regulations section 1.59A-7(d)(2) for further information regarding the application of the exception for small partners.

**Exception for certain other partners.** The partnership does not need to complete Schedule K-3, Part IX, for a partner that is an individual.

The partnership does not need to complete Schedule K-3, Part IX, for a corporate partner that is an S corporation.

The partnership should complete Section 1, lines 1-4 of Schedule K-3, Part IX for partners that are RICs and REITs but does not need to complete Section 2 for these partners.

## Section 1. Applicable Taxpayer

**Lines 1a through 4a.** Enter the partnership's total gross receipts for the current year and each of the 3 preceding tax years. The determination of the partnership's gross receipts is made in accordance with Regulations section 1.448-1T(f)(2)(iv).

**Lines 1b through 4b.** Complete lines 1b through 4b if the partnership has a foreign partner or has reason to know it has a foreign partner through a partner that is a pass-through entity. Enter the partnership's total gross ECI receipts for the current year and each of the 3 preceding tax years which the foreign partner(s) would take into account as ECI. If the foreign partner(s) is subject to tax on a net basis pursuant to an applicable income tax treaty of the United States, enter the gross receipts that would be attributable to transactions taken into account in determining its net taxable income.

**Lines 1c through 4c.** Enter the total non-ECI gross receipts as the difference between Column A and Column B.

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

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

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

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

a related party to the partner (as defined in Regulations section 1.59A-1(b)(12)) with respect to which a deduction is allowable under chapter 1 and for certain other items in lines 13 and 15. See Regulations section 1.59A-3 and the Instructions for Form 8991 for more information on the definition of a base erosion payment.

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

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

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

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

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

**Column (c).** Enter the amount of the partners' base erosion tax benefits attributable to deductions allowed under chapter 1 for the tax year for depreciation (or amortization in lieu of depreciation) with respect to intangible property rights

acquired in the current or prior years from all foreign persons that are a related party of any of the partners.

**Line 9. Rents, royalties, and license fees.**

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

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

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

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

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

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

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

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

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

**Line 11. Interest expense.**

**Column (a).** Enter the amount of interest paid or accrued by the partnership for the tax year (excluding interest paid or accrued in a prior year treated as paid or



accrued in the current year under section 163(j) or similar provisions).

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

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

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

The partnership is required to complete *Worksheet A* for all partnership related items and complete a *Worksheet A* for each foreign partner's share of the amounts reported on the partnership *Worksheet A* and attach a statement containing the partner's share of the information in *Worksheet A* to the partner's Schedule K-3.

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

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

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

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

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

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

**Column (b).** Enter the amount of any premiums or other consideration paid or accrued to all foreign persons that are a related party of any of the partners for reinsurance taken into account under section 803(a)(1)(B) (relating to return premiums and premiums or other consideration arising out of indemnity reinsurance that reduces life insurance gross income) or section 832(b)(4)(A) (relating to amounts deducted from gross premiums written on insurance contracts for return premiums and premiums paid for reinsurance).

**Column (c).** Enter the amount of the partners' base erosion tax benefits attributable to premiums or other consideration as described in section

59A(c)(2)(A)(iii) paid or accrued to any foreign person that is a related party of any of the partners for reinsurance.

**Line 14a. Nonqualified derivative payments.**

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

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

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

**Line 14b. Qualified derivative payments excepted by section 59A(h).**

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

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

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

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

**Worksheet A**

**Interest Paid or Accrued by the Partnership**

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

**Worksheet B**

**Part IX, Section 2, Line 18, Column (c)**

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

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

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

**Line 16. Other payments—specify.**

**Column (a).** Enter the amount paid or accrued for the tax year by the partnership that has not been included on lines 8 through 15 above.

**Column (b).** Enter the amount paid or accrued to any foreign person that is a related party of any of the partners that is a base erosion payment that has not otherwise been included on lines 8 through 15 above.

**Column (c).** Enter the amount of the partners' base erosion tax benefits related to other specified base erosion payments not listed in any of the categories on lines 8 through 15 above.

**Attachment.** For amounts reported on line 16, attach a statement to both Schedules K-2 and K-3 (for distributive share) describing the type and amount of other payments, using the same column headings as specified in this schedule: "Total Base Erosion Payment," "Total Base Erosion Tax Benefit." For each type

of payment, the attachment must identify the relationship of a partner to the foreign related party consistent with the categories and instructions for columns (b) and (c) of this schedule.

**Line 17(c)—Base erosion tax benefits related to payments reported on lines 6 through 16, on which tax is imposed by section 871 or 881, with respect to which tax has been withheld under section 1441 or 1442 at 30% (0.30) statutory withholding tax rate.** Enter the aggregate amount of the partners' base erosion tax benefits, reported on lines 8 through 16, on which tax is imposed under section 871 or 881 and with respect to which tax has been deducted and withheld under section 1441 or 1442 at a 30% statutory withholding tax rate.

**Line 18(c)—Portion of base erosion tax benefits reported on lines 8 through 16, on which tax is imposed by section 871 or 881, with respect to which tax has been withheld under section 1441 or 1442 at a reduced withholding rate pursuant to an income tax treaty. Multiply ratio of percentage withheld divided by 30% (0.30) times base erosion tax benefit.** The partnership is required to provide the information in *Worksheet B* for all partnership related items and attach a statement containing the information in *Worksheet B* to the Schedule K-3 for each partner's share of the amounts reported on the partnership *Worksheet B*.

Complete *Worksheet B* to determine the portion of the base erosion tax benefits, reported on lines 8 through 16, on which tax is imposed under section 871 or 881 and with respect to which tax has been deducted and withheld at a reduced withholding tax rate (but not exempt from tax) pursuant to a U.S. income tax treaty. Keep a copy of the completed *Worksheet B* for the partnership's records.

**Schedule K-2, Part X (Foreign Partners' Character and Source of Income and Deductions), and Schedule K-3, Part X (Foreign Partner's Character and Source of Income and Deductions)**

**Note.** Certain partners will use the following information to figure and report their U.S. tax liability on Forms 1040-NR and 1120-F, or other applicable forms.

In general, the Schedules K-2 and K-3, Part X, must be filed by every partnership that has a foreign partner, or if a foreign person has a U.S. income tax reporting obligation with respect to any item of partnership income, deduction, gain, or loss.

A partnership may rely on IRS Forms W-8 and W-9 from its partners to determine whether it has a foreign partner. If a partner is a flow-through entity, the partner, or its authorized representative, may notify the partnership as to whether or not there is a foreign person with a U.S. income tax reporting obligation with respect to a partnership item.

A partnership that does not have or receive sufficient information or notice regarding a partner should presume the partner is foreign or that a foreign person has a U.S. income tax reporting obligation with respect to a partnership item and complete the Schedules K-2 and K-3, Part X accordingly.

**Example 8.** A partnership does not receive notice from a pass-through partner regarding whether or not the pass-through partner has any partners or owners that are foreign persons and does not otherwise have the information necessary to make this determination. Because the partnership cannot determine whether a foreign person has a U.S. income tax reporting obligation with respect to a partnership item, it must complete Schedules K-2 and K-3, Part X for the flow-through partner.

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

source partnership effectively connected items, any U.S. source FDAP, and any income that is not effectively connected or FDAP of the partnership but that may be effectively connected to the foreign person's conduct of a U.S. trade or business.

In addition, unless otherwise noted, the partnership must complete Schedule K-3, Part X, to report each partner's distributive share of the amounts reported on Schedule K-2, Part X.

## Section 1. Gross Income

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

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

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

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

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

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

**Schedule K-3.** For each line in Section 1, enter in column (b) the partner's distributive share of the applicable gross income the source of which needs to be determined by the partner. For each item

of income in column (b), attach a statement identifying the column [(c), (e), or (f)] in which the income would be reported by the partnership if it were U.S. source and the column [(d) or (g)] in which the income would be reported by the partnership if it were foreign source. For example, if you have income from the sale of personal property the source of which is based on the tax home of the partner under section 865, the statement should indicate both how the income should be characterized (as ECI, FDAP, or other) if it were U.S. source, and how it should be characterized (as ECI or non-ECI) if it were foreign source.

**Column (c). U.S. source ECI.** For each line in Section 1, enter the amounts of the applicable U.S. source gross income, as determined by the partnership, that are, or treated as, effectively connected with the partnership's conduct of a U.S. trade or business.

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

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

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

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

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

**Business-activities test.** FDAP and capital gains are ECI if the activities of the U.S. trade or business were a material factor in the realization of the passive income items.

**Other income treated as U.S. source ECI.** If a partnership is not engaged in a U.S. trade or business during the tax year, it will report amounts in column (c) if the partnership:

- Had current year income or gain from a sale or exchange of property or from performing services (or any other

transaction) in any other tax year that would have been ECI if received by a foreign person in that other tax year (see section 864(c)(6)),

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

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

If income is reported in column (c) see the Instructions for Form 8804 for any Form 8804 filing obligations.



*Do not include gross rental real estate income in column (c) on the Schedule K-2, Part X, that is not ECI to the partnership. Even if a foreign partner elects to treat the income as ECI, report these amounts in column (e) of Schedule K-2, Part X. However, the partnership should report the income as ECI in column (c) of Schedule K-3, Part X.*

**Schedule K-3.** In addition to the partner's distributive share of the amounts reported in column (c) of Schedule K-2, Part X, report in column (c) of Schedule K-3, Part X, any U.S. source income that is subject to withholding under section 1446 based on a partner's Form W-8 ECI including U.S. source gross rental real estate income that the foreign partner elected to treat as ECI.

**Column (d). Foreign source ECI.** Enter in this column the amounts of the applicable gross income that are foreign source ECI. Foreign source income is ECI only in limited circumstances. If the partnership has an office or other fixed place of business in the United States, the following types of foreign source income it receives from that U.S. office are ECI.

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



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

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

If income is reported in column (d) see the Instructions for Form 8804 for any Form 8804 filing obligation.

**Column (e). U.S. source non-ECI (FDAP).** For each line, enter in column (e) amounts of the applicable gross income if all of the following apply.

- The amount is FDAP (described below).
- The amount is includible in gross income. Therefore, receipts that are excluded from income (for example, interest income received on state and local bonds that is excluded under section 103) would not be reported.
- The amount is received from U.S. sources.
- The amount received is non-ECI. Amounts that are ECI should be reported in column (c) or column (d).
- The amount received is not exempt (by the Code) from taxation. For example, interest on deposits that are exempted by section 881(d) would not be included as income by a foreign partner. In addition, certain portfolio interest is not taxable for obligations issued after July 18, 1984. See section 881(c) for more details.

Amounts that are FDAP include the following.

- Interest (other than original issue discount (OID) as defined in section 1273), dividends, rents, royalties, salaries, wages, premiums, annuities, compensation, and other passive gains, profits, and income.
- Gains described in section 631(b) or (c), relating to disposal of timber, coal, or domestic iron ore with a retained economic interest.
- Gains on a sale or exchange of an OID obligation, the amount of the OID accruing while the obligation was held unless this

amount was taken into account on a payment.

- On a payment received on an OID obligation, the amount of the OID accruing while the obligation was held, if such OID was not previously taken into account and if the tax imposed on the OID does not exceed the payment received less the tax imposed on any interest included in the payment received. This rule applies to payments received for OID obligations issued after March 31, 1972. Certain OID is not taxable for OID obligations issued after July 18, 1984. See section 881(c) for more details. For rules that apply to other OID obligations, see Pub. 515.
- Gains from the sale or exchange of patents, copyrights, and other intangible property if the gains are from payments that are contingent on the productivity, use, or disposition of the property or interest sold or exchanged. For more information, see section 881(a) and Regulations section 1.881-2.



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

If income is reported in column (e) see the Instructions for Forms 1042 and 1042-S for any filing obligation.

**Schedule K-3.** For each line in Section 1, enter in column (e) the partner's distributive share of the applicable income that is U.S. source FDAP and not ECI. Do not include income subject to withholding under section 1446 based on a partner's Form W-8 ECI or rental real estate income which a foreign partner has elected to treat as ECI. That income should instead be reported in column (c).

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

**Schedule K-3.** Report the partner's distributive share of the amounts in column (f) of Schedule K-2, Part X. For any amount that is transportation income subject to tax under section 887, also provide the partner the statement

described in the Instructions for Form 1040-NR, line 58.

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

## Section 2. Deductions, Losses, and Net Income

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

Use Section 2 to report the partnership's deductions and losses that will be utilized to determine the foreign partner's ECI. The line items on Section 2 generally correspond to the deductions separately reported on Form 1065, Schedule K. On Schedule K-3, Part X, report the partner's share of the amounts reported by the partnership on Schedule K-2, Part X.

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

**Columns (c) and (d). Partnership determination—ECI.** Enter deductions definitely related and allocated to ECI under, for example, Regulations sections 1.861-8 through 1.861-20 and Temporary Regulations sections 1.861-8T and -9T.



*Do not include deductions attributable to gross rental real estate income in column (c) on the Schedule K-2, Part X, that is not ECI to the partnership. Even if a foreign partner elects to treat the income as ECI, report these deductions in column (e) of Schedule K-2, Part X. However, the partnership should report the deductions in column (c) of Schedule K-3, Part X.*

**Columns (e) through (g). Partnership determination—non-ECI.** Enter deductions definitely related and allocated to non-ECI under, for example, Regulations sections 1.861-8 through 1.861-20 and Temporary Regulations sections 1.861-8T and -9T.

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

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

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

**Line 15. Other losses.** If there are more than two other losses during the year, attach a statement to both Schedules K-2 and K-3 to expand the lines to report the amount of each additional loss. Do not report the total of the other losses on line 15.

**Line 16. Charitable contributions.** Charitable contributions may be deducted whether or not they are effectively connected with a U.S. trade or business. See sections 873(b)(2) and 882(c)(1)(B), and Regulations section 1.882-4(b) for more information. Charitable contribution deductions are apportioned solely to U.S. source gross income. See Regulations section 1.861-8(e)(12). Include amounts reported on line 16 in column (c).

**Lines 17 and 18. Other deductions.** Enter other types of deductions not described in the prior line items. If the partnership has more than one other type of deduction, separately identify each type of deduction on lines 17 and 18. If there are more than two types of other deductions, attach a statement to both Schedules K-2 and K-3 to expand the schedule to include information on Section 2 identifying the amount and type of deduction.

### Section 3. Allocation and Apportionment Methods for Deductions

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

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

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

### Line 1b. Worldwide gross income.

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

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

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

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

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

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

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

For each SIC code, in line 5, column (ii), enter the gross receipts that resulted in ECI, and in line 5, column (iii), enter the worldwide gross receipts. Such gross receipts include both the partnership's gross receipts and certain other controlled or uncontrolled parties' gross receipts.

See Regulations section 1.861-17(d)(3) and (d)(4).

If there are more than two SIC codes, attach a statement to Schedules K-2 and K-3 to expand the schedule to include information on line 5 for the additional SIC codes.

**Lines 7 and 8.** Report other apportionment keys than those identified in lines 1 through 5, as applicable. See, for example, Regulations section 1.861-8 through -20 and Temporary Regulations section 1.861-8T and -9T.

For example, a partnership might enter ECI COGS in column (i), line a, and total COGS in column (i), line b. If ECI COGS is \$100, the partnership would enter \$100 in column (ii), line a, and if COGS is \$200, the partnership would enter \$200 in column (ii), line b. If there are more than two other types of apportionment keys, attach a statement to Schedules K-2 and K-3 to expand the schedule to include all of the information for those apportionment keys.

### Section 4. Reserved

### Schedule K-2, Part XI (Section 871(m) Covered Partnerships), and Schedule K-3, Part XI (Section 871(m) Covered Partnerships)

**Note.** Certain partners that enter into section 871(m) transactions referencing units in the partnership will use the information in this part to determine their U.S. withholding tax and reporting obligations with respect to those transactions under section 871(m) and related rules.

Schedules K-2 and K-3, Part XI, must be completed if you are a publicly traded partnership as defined in section 7704(b) (a "PTP") that is a covered partnership as defined in Regulations section 1.871-15(m)(1) (a "covered partnership") or directly or indirectly holds an interest in a lower-tier partnership that is a covered partnership, regardless of whether the partners are domestic or foreign.

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

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

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

**Line 3.** On both Schedules K-2 and K-3, for each allocation period, specify when the allocation period begins and ends, as well as the dividends, dividend equivalents, and the total of the dividends and dividend equivalents for the applicable period. On Schedule K-2, the information is for all the issued and outstanding units of the partnership. On Schedule K-3, the information is for the units of the partner to which the Schedule K-3 relates. The allocation period should be determined in accordance with section 706 and the Regulations thereunder. The value of a partnership's assets is equal to their fair market value, except that the value of any notional principal contract, futures contract, forward contract, option, and any similar financial instrument held by the partnership is deemed to be the value of the notional securities referenced by the transaction. See Regulations section 1.871-15 for additional information regarding dividend equivalents. You can add additional lines if needed. The amounts for the dividends, dividend equivalents, and total in columns (iii), (iv), and (v) should be reported to the fourth decimal point, rounding up for any excess amount. For example, if the amount of a dividend was .12344, the reported amount should be .1235.

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

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

**Note.** There is not a corresponding part on Schedule K-2 with respect to Schedule K-3, Part XIII. This part provides the information for a foreign partner to use

to determine the gain or loss it reports on its return from the transfer of an interest in the partnership.

This part generally applies to a partnership that is directly or indirectly engaged in the conduct of a trade or business in the United States (U.S. trade or business) and had a foreign partner if either:

1. The foreign partner transferred an interest in the partnership (including a distribution that results in the recognition of gain or loss to a partner (see Regulations section 1.731-1(a)), or
2. The partnership directly or indirectly transferred an interest in a partnership that engaged in a U.S. trade or business.

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

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

**Tiered partnerships.** If a foreign transferor transferred an interest in an upper-tier partnership that holds, directly or indirectly through one or more partnerships, an interest in a lower tier partnership engaged in U.S. trade or business, then the upper-tier partnership must include in the foreign transferor's aggregate deemed sale EC items the items derived from the lower-tier partnership. See Regulations section 1.864(c)(8)-2(b)(2)(i). Therefore, to complete this part the upper-tier partnership will need to obtain the amount of the upper-tier partnership's distributive share of deemed sale effectively connected gain or loss from the lower-tier partnership. Under these circumstances, the lower-tier partnership may provide that information to the upper-tier partnership using Part XIII even though the upper-tier partnership did not actually transfer its interest in the lower-tier partnership. A lower-tier partnership that uses Part XIII should complete it as though the upper-tier partnership transferred its entire interest in the lower-tier partnership. Part XIII may be used by each tier of partnerships until it reaches the uppermost tier whose interest was transferred. To indicate that there was no actual transfer by an upper-tier partnership of its interest in a lower-tier partnership, the lower-tier partnership should leave Item A blank. When the upper-tier partnership receives the information from the lower-tier partnership, whether

reported on Part XIII or in some other manner, it should use this information to complete the Part XIII it issues to its foreign transferor.

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

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

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

**Item C.** Check the box in Item C that identifies the type of interest the partner transferred in the partnership.

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

**Lines 2 and 3. Aggregate effectively connected ordinary gain or (loss) that would be recognized on the deemed sale of section 751 property, and Aggregate effectively connected capital gain or (loss) that would be recognized on the deemed sale of non-section 751 property.** Determining the amount to report on line 2 and line 3 requires a three-step process. These instructions provide an overview of that process. For more information, see Regulations section 1.864(c)(8)-1. First, with respect to each asset the partnership holds, determine the amount of gain or loss that the partnership would recognize in connection with a deemed sale to an unrelated party in a fully taxable transaction for cash equal to the asset's



fair market value immediately before the partner's transfer of its partnership interest. Second, determine the amount of that gain or loss that would be treated as effectively connected gain or loss ("deemed sale effectively connected gain" and "deemed sale effectively connected loss"). Third, determine the partner's distributive share of these deemed sale gain or loss amounts.

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

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

corporation as gain or loss that is effectively connected to a trade or business within the United States. Section 897(g) generally provides that, under regulations prescribed by the Secretary, the amount of any money, and the fair market value of any property, received by a nonresident alien individual or foreign corporation in exchange for all or part of its interest in a partnership, trust, or estate shall, to the extent attributable to U.S. real property interests, be considered as an amount received from the sale or exchange in the United States of such property. A partnership must complete line 4 if it holds U.S. real property interests and the transfer of an interest in the partnership is not subject to section 864(c)(8). Under these circumstances, the partnership must enter on line 4 for purposes of section 897(g) the foreign transferor's distributive share of the partnership's gain or loss on the deemed sale of the U.S. real property interests.

**Line 5. Check this box if the amount provided on line 2 or 3 is determined (in whole or in part) under Regulations**

**section 1.864(c)(8)-1(c)(2)(ii)(E) (material change in circumstances rule for a deemed sale of the partnership's inventory property or intangibles).** As part of the three-step process for determining the amount to report on lines 2 and 3, Regulations section 1.864(c)(8)-1 provides certain look-back rules that apply for purposes of sourcing the deemed sale gain or loss with respect to inventory property and intangibles held by a partnership. However, if a material change in circumstances during the look-back period causes these rules to reach an inappropriate sourcing result, Regulations section 1.864(c)(8)-1(c)(2)(ii)(E) allows, in certain cases, the relevant look-back rule for inventory property or intangibles to be applied by reference to the date on which the material change in circumstances occurs. The partnership must check the box provided on line 5 if the material change in circumstances rule is used to determine the amount provided on line 2 or line 3.

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