2025

Instructions for Form 1116

Foreign Tax Credit (Individual, Estate, or Trust)

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

Future Developments

For the latest information about developments related to Form 1116 and its instructions, such as legislation enacted after they were published, go to *IRS.gov/Form1116*.

What's New

Form 1116, Part IV. Lines 25 through 32 in Part IV must now be completed even when filing only one Form 1116. We revised the text on Form 1116, line 24, to reflect this change. If filing more than one Form 1116, see *Part IV*, later.

New legislation. Recent legislation (P.L. 119-21), adds new section 151(d)(5)(C), which generally provides a $6,000 deduction for the taxpayer and (in the case of a joint return) the taxpayer's spouse, if they have reached age 65 before the close of the tax year. This deduction is reported on Schedule 1-A (Form 1040), line 37, and needs to be removed from taxable income for purposes of computing the foreign tax credit limitation. See the instructions for line 3b and line 18, later. This deduction is in effect for tax years 2025 through 2028.

P.L. 119-21 also adds new section 960(d)(4), which disallows a credit under section 901 for 10% of any foreign income taxes paid or accrued (or deemed paid under section 960(b)(1)) with respect to any amount excluded from gross income under section 959(a) by reason of an inclusion in gross income under section 951A(a). Section 960(d)(4) applies to foreign income taxes paid or accrued (or deemed paid under section 960(b)(1)) with respect to any amount excluded from gross income under section 959(a) by reason of an inclusion in gross income under section 951A(a) after June 28, 2025. See *Part II*, later.

Reminders

Final foreign tax credit regulations. Final foreign tax credit regulations were published January 4, 2022. The regulations made changes to the rules relating to the creditability of foreign taxes under sections 901 and 903, the applicable period for claiming a credit or deduction for foreign taxes, and the election to claim a provisional credit for contested foreign taxes. A Notice was subsequently released on July 21, 2023, allowing taxpayers to apply prior rules in place of certain rules provided in the regulations. The rules described in this Notice were modified in part by a Notice released on December 11, 2023, to address their application to partnerships and their partners and to extend the relief period until further notice. For more information, see Treasury Decision (T.D.) 9959, 2022-03 I.R.B. 328, available at *IRS.gov/irb/2022-03_IRB#TD-9959*; Notice 2023-55, 2023-32 I.R.B. 427, available at *IRS.gov/irb/2023-32_IRB#NOT-2023-55*; and Notice 2023-80, 2023-52 I.R.B. 1583, available at *IRS.gov/irb/2023-52_IRB#NOT-2023-80*.

Alternative minimum tax (AMT). In addition to your regular income tax, you may be liable for the AMT. A foreign tax credit may be allowed in figuring this tax. See the Instructions for Form 6251, Alternative Minimum Tax—Individuals, or the Instructions for Schedule I (Form 1041), Alternative Minimum Tax—Estates and Trusts, for a discussion of the AMT foreign tax credit.

More Information

For more information about, or assistance with, figuring the foreign tax credit, the following IRS resources are available.

Publications. See Pub. 514, Foreign Tax Credit for Individuals. The following publications may also be helpful.

- Pub. 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad.
- Pub. 519, U.S. Tax Guide for Aliens.
- Pub. 570, Tax Guide for Individuals With Income From U.S. Territories.

If you are overseas, call 267-941-1000 (not toll free).

Write to: Internal Revenue Service, International Accounts, Philadelphia, PA 19255-0725

General Instructions

Election To Claim the Foreign Tax Credit Without Filing Form 1116

You may be able to claim the foreign tax credit without filing Form 1116. By making this election, the foreign tax credit limitation (lines 15 through 23 of the form) won't apply to you. This election is available only if you meet all of the following conditions.

- All of your foreign source gross income was "passive category income" (which includes most interest and dividends). See *c. Passive Category Income*, later. However, for this purpose, passive income also includes (a) income subject to the special rule for high-taxed income, described later; and (b) certain export financing interest.
- All the income and any foreign taxes paid on it were reported to you on a qualified payee statement. Qualified payee statements include Form 1099-DIV, Form 1099-INT, Schedule K-1 (Form 1041), Schedule K-3 (Form 1065), Schedule K-3 (Form 1120-S), or similar substitute statements.
- Your total creditable foreign taxes aren't more than $300 ($600 if married filing a joint return).

This election isn't available to estates or trusts.

If you make this election, the following rules apply.

- You can't carry over to or from any other year any foreign taxes paid or accrued in a tax year to which the election

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

To make the election, just enter on the foreign tax credit line of your tax return (for example, Schedule 3 (Form 1040), Part I, line 1) the smaller of (a) your total foreign tax, or (b) your regular tax. See the instructions for line 20, later, for how to figure your regular tax.

Purpose of Form

Who should file. File Form 1116 to claim the foreign tax credit if the election, earlier, doesn't apply and:
- You are an individual, estate, or trust; and
- You paid or accrued certain foreign taxes to a foreign country or U.S. territory.

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

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

Nonresident aliens. If you are a nonresident alien, you generally can't take the credit. However, you may be able to take the credit if:
- You were a resident of Puerto Rico during your entire tax year, or
- You pay or accrue tax to a foreign country or U.S. territory on income from foreign sources that is effectively connected with a trade or business in the United States. But if you must pay tax to a foreign country or U.S. territory on income from U.S. sources only because you are a citizen or a resident of that country or U.S. territory, don't use that tax in figuring the amount of your credit.

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

Separate Schedules and Forms

- Use Schedule B (Form 1116) to reconcile your prior-year foreign tax carryover with your current-year foreign tax carryover. See Schedule B (Form 1116) and its instructions, and the instructions for line 10, later, for more information.
- Use Schedule C (Form 1116) to report foreign tax redeterminations that occurred in the current tax year and that relate to prior tax years. See Schedule C (Form 1116) and its instructions, and *Foreign Tax Redeterminations*, later, for more information.
- Use Form 7204 to consent to extend the time to assess tax related to contested foreign income taxes, if you are electing to claim a provisional foreign tax credit for the contested foreign income taxes.

Credit or Deduction

Instead of claiming a credit for eligible foreign taxes, you can choose to deduct foreign income taxes. Form 1040 or 1040-SR filers choosing to do so would deduct foreign income taxes on Schedule A (Form 1040), Itemized Deductions. Generally, if you take the credit for any eligible foreign taxes, you can't take any part of that year's foreign taxes as a deduction. However, even if you take the credit for eligible foreign taxes for the year, you can take a deduction for the following.
- Foreign taxes not allowed as a credit because of boycott provisions.
- Taxes paid to certain foreign countries for which a credit has been denied, as described in item 4 under *Foreign Taxes Not Eligible for a Credit*, later.
- Taxes on income or gain that aren't creditable because you don't meet the holding period requirement, as described in item 5 or 7 under *Foreign Taxes Not Eligible for a Credit*, later.
- Taxes on income or gain that aren't creditable because you have to make related payments, as described in item 6 or 8 under *Foreign Taxes Not Eligible for a Credit*, later.
- Certain taxes paid or accrued to a foreign country in connection with the purchase or sale of oil or gas extracted in that country, as described in item 10 under *Foreign Taxes Not Eligible for a Credit*, later.
- Taxes on income or gain that aren't creditable because they were paid or accrued in connection with a covered asset acquisition, as described in item 12 under *Foreign Taxes Not Eligible for a Credit*, later.
- If you are an accrual-basis taxpayer or if you elected to claim your foreign tax credit on an accrual basis, taxes paid that relate to a prior tax year in which you elected to claim a deduction instead of a credit in that prior year. See Regulations section 1.901-1(c)(3).

You may make an election to claim a credit or to change from claiming a deduction to claiming a credit at any time before the end of a special 10-year limitation period described in section 6511(d)(3) (or section 6511(c) if the period is extended by agreement). You may make an election to claim a deduction or to change from claiming a credit to claiming a deduction at any time before the end of the standard 3-year limitation period described in section 6511(a) (or section 6511(c) if the period is extended by agreement). See Regulations section 1.901-1(d) and Pub. 514 for more information.

Foreign Taxes Eligible for a Credit

You can take a credit for income, war profits, and excess profits taxes paid or accrued during your tax year to any foreign country or U.S. territory, or any political subdivision (for example, city, state, or province) of the country or territory. This includes taxes paid or accrued in lieu of a foreign or territory income, war profits, or excess profits tax that is otherwise generally imposed. For purposes of the credit, U.S. territories include Puerto Rico, the U.S. Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa. See Pub. 514 for more information on what foreign taxes qualify for the credit.

U.S. citizens living in certain treaty countries may be able to take an additional foreign tax credit for foreign tax imposed on certain items of income from the United States. See *Tax Treaties* in Pub. 514 for details. If this applies to you, use the worksheet near the end of Pub. 514 to help you figure this additional credit.

If you make the election under section 962 to be taxed at corporate rates on the amount you must include in gross income under sections 951(a) and 951A(a) from your controlled foreign corporations (CFCs), you can claim the credit based on your share of foreign taxes paid or accrued by the CFC. If you make this election, you must claim the credit by filing Form 1118. If you receive a distribution of earnings that you previously included in gross income under sections 951(a) and 951A(a), and you paid or accrued

foreign taxes (such as withholding taxes) that were imposed on such distribution, you can claim the credit for such taxes regardless of whether you make the election under section 962, but you must file Form 1116 to do so. See *Part II*, later, for more information. You must also still file Form 1116 to claim the credit for other foreign taxes you paid or accrued. For more information on how to complete your Form 1116 and Form 1118 when making this election, see sections 960 and 962 and Pub. 514.

Foreign Taxes Not Eligible for a Credit

You can't take a credit for the following foreign taxes.

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

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

2. Taxes paid to a foreign country that are offset or reduced by a tax credit. This includes foreign taxes offset or reduced by a tax credit that is refundable to you in cash only if an excess credit remains after offsetting your foreign income tax liability as well as a tax credit purchased from another taxpayer. See Regulations section 1.901-2(e)(2)(ii). However, if the foreign income taxes are offset or reduced by a tax credit that is fully refundable to you in cash at your option, without having to first offset your foreign income tax liability, you can claim a foreign tax credit against your U.S. income tax for those foreign taxes. See Regulations section 1.901-2(e)(2)(iii).

3. Taxes imposed by a foreign country only because you could claim a foreign tax credit against the U.S. tax liability for such foreign income taxes paid or accrued.

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

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

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

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

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

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

9. Foreign taxes that are used to provide, directly or indirectly, a subsidy to you, a person or business related to you, or any party transacting with you.

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

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

12. The disqualified portion of any foreign tax paid or accrued in connection with a covered asset acquisition. Covered asset acquisitions include certain acquisitions that result in a stepped-up basis for U.S. tax purposes. For more information, see section 901(m) and the regulations under that section, including T.D. 9895, 2020-15 I.R.B. 565, available at *IRS.gov/irb/2020-15_IRB#TD-9895*.

13. Foreign taxes disallowed under section 965(g) and Regulations section 1.965-5.

You can't take a credit for any interest or penalties you must pay.

For more information, see *Foreign Taxes for Which You Cannot Take a Credit* in Pub. 514.

Foreign Currency Conversion

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

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

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

1. The foreign taxes are actually paid more than 2 years after the close of the tax year to which they relate.

2. The foreign taxes are actually paid in a tax year prior to the year to which they relate.

3. The foreign tax liability is denominated in any inflationary currency.

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

exchange rate on the last day of the U.S. tax year to which those taxes relate.

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

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

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

Foreign Tax Redeterminations

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

If you claim the foreign tax credit based on foreign taxes accrued instead of foreign taxes paid, your foreign tax credit and U.S. tax liability must be redetermined in any of the following situations (foreign tax redeterminations).

1. Your accrued taxes when paid differ from the amount you claimed as a credit (including corrections to accrued tax amounts to reflect final foreign tax liability and additional tax you pay after the close of the tax year to which the tax relates).

2. You don't pay the accrued taxes within 24 months after the close of the tax year to which they relate.

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

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

4. You change your election and claim a foreign tax credit for foreign income taxes that you previously deducted, or you change your election and claim a deduction for foreign income taxes that you previously credited.

5. There is a change in foreign tax liability that affects the amount of distributions or inclusions under section 951, 951A, or 1293, or affects the application of the high-tax exception described in section 954(b)(4).

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

   a. $10,000, or

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

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

Reporting requirements. If any of the above foreign tax redeterminations occur after you file your tax return, and the foreign tax redeterminations change the amount of U.S. tax due for any tax year, you must generally file Form 1040-X, Amended U.S. Individual Income Tax Return, or other amended return, to notify the IRS so that your U.S. tax for the year or years affected can be redetermined. If you have a foreign tax redetermination that results in an increase in your U.S. tax liability for any year, note in the explanation of changes section of your amended tax return (for example, Form 1040-X, Part II), "This amended return and Form 1116 are for a change in foreign tax credit that increases U.S. tax liability." Complete and attach to Form 1040-X (or other amended return) a revised Form 1116 for the tax year(s) affected and a statement that contains information sufficient for the IRS to redetermine your U.S. tax liability. In some cases, you may not have to file Form 1040-X or attach Form 1116. See Pub. 514 for more information, including exceptions. An increase in your U.S. tax liability as a result of a foreign tax redetermination is excepted from the general statute of limitations against assessment and collection. See sections 6501(c)(5) and 905(c).

Schedule C (Form 1116). In addition to filing an amended return with Form 1116 and attached statement for your tax year(s) for which your U.S. tax liability is changed as a result of the foreign tax redetermination, you must file Schedule C (Form 1116) with your current-year tax return summarizing the foreign tax redeterminations that occurred that year that relate to prior tax years. You must file Schedule C (Form 1116) for each applicable separate category of income.

If a foreign tax redetermination doesn't change the amount of U.S. tax due for any tax year, you don't need to file an amended return and may instead notify the IRS of the redetermination by attaching for each applicable separate category of income a completed Schedule C (Form 1116) to the original return for your tax year in which the foreign tax redetermination occurs. See the Instructions for Schedule C (Form 1116) for additional information.

Contested foreign income tax liability. In general, you can't claim a credit for a contested foreign income tax liability until the contest is resolved and the amount of the liability is finally determined.

If you use the cash method of accounting, you can't claim a credit for a contested foreign income tax liability (or any portion of it) that has been remitted to the foreign country until the contest is resolved and the tax is considered paid for purposes of section 901. You can claim a credit once the contest is resolved and the foreign income tax liability is

finally determined. The tax is considered paid in the tax year in which the payment was made. See Regulations section 1.905-1(c)(2). Alternatively, you can elect to claim a provisional credit for contested taxes, as described later.

If you elected the accrual method of accounting for claiming the foreign tax credit (see *Part II*, under *Specific Instructions*, later), you can't claim a credit for a contested foreign income tax liability (or any portion of it) that has been remitted to the foreign country until the contest is resolved and the tax is considered paid for purposes of section 901. You can claim a credit once the contest is resolved and the foreign income tax liability is finally determined and paid. The tax is considered to accrue in the foreign tax year to which the contested foreign income tax liability is related ("relation-back year"). See Regulations section 1.905-1(d)(3). Alternatively, you can elect to claim a provisional credit for contested taxes. See the next paragraph for details.

Election to claim a provisional credit for contested taxes. If you use the cash method of accounting, you may elect to claim a credit for a contested foreign income tax liability (or any portion of it) in the tax year you pay the contested amount (or any portion of it) to the foreign country, even though the liability isn't finally determined and isn't considered an amount of tax paid for purposes of section 901. This election is available only for contested foreign income taxes that are paid in a tax year in which you elected to claim a credit under section 901(a), instead of a deduction under section 164(a)(3), for foreign income taxes that accrue or are paid in that year. To make the election, you must file Form 1116 for the tax year the contested liability is paid and Form 7204. In addition, for each subsequent tax year up to and including the tax year in which the contest is resolved, you must annually file Schedule C (Form 1116). Any portion of a contested foreign income tax liability for which a provisional credit is claimed that is subsequently refunded by the foreign country is a foreign tax redetermination under Regulations section 1.905-3(a).

If you are an accrual-basis taxpayer or if you elected to claim your foreign tax credit on an accrual basis, you may elect to claim a credit for a contested foreign income tax liability (or any portion of it) in the relation-back year when the contested amount (or a portion of it) is paid to the foreign country, even though the liability isn't finally determined and hasn't accrued. This election is available only for contested foreign income taxes that relate to a tax year in which you elected to claim a credit under section 901(a), instead of a deduction under section 164(a)(3), for foreign income taxes that accrue or are paid in that year. To make the election, you must file Form 1116 and Form 7204 with your return (typically an amended return) for the tax year to which the contested tax relates. In addition, for each subsequent tax year up to and including the tax year in which the contest is resolved, you must annually file Schedule C (Form 1116). Any portion of a contested foreign income tax liability for which a provisional credit is claimed that is subsequently refunded by the foreign country is a foreign tax redetermination under Regulations section 1.905-3(a).

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

Income From Sources Outside the United States

Foreign source income generally includes, but isn't limited to, the following.

- Compensation for services performed outside the United States.
- Interest income from a payer located outside the United States.
- Dividends from a corporation incorporated outside the United States.
- Subpart F income inclusions and section 951A category income inclusions.
- Gain on the sale of nondepreciable personal property you sold while maintaining a tax home outside the United States, if you paid a tax of at least 10% of the gain to a foreign country.

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

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

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

Categories of Income

Use a separate Form 1116 to figure the credit for each category of foreign source income listed above Part I of Form 1116. The following instructions tell you what kind of income to include in each category. For more information, see Pub. 514, section 904, and Regulations sections 1.904-4 and 1.904-5.

a. Section 951A Category Income

Section 951A category income includes any amount included in gross income under section 951A (other than passive category income). Section 951A category income is otherwise referred to as "global intangible low-taxed income (GILTI)" and is included by U.S. shareholders of certain CFCs. See Pub. 514 for additional details.

b. Foreign Branch Category Income

Foreign branch category income consists of the business profits of U.S. persons that are attributable to one or more QBUs in one or more foreign countries. Foreign branch category income doesn't include any passive category income. See Pub. 514 for further information.

c. Passive Category Income

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

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

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

Passive income doesn't include export financing interest, active business rents and royalties, or high-taxed income. High-taxed income is income if the foreign taxes you paid on the income (after allocation of expenses) exceed the highest U.S. tax that can be imposed on the income.

Passive income also doesn't include financial services income derived by a financial services entity. You are a financial services entity if you are predominantly engaged in the active conduct of a banking, insurance, financing, or similar business for the tax year. Financial services income of a financial services entity generally includes income derived in the active conduct of a banking, financing, insurance, or similar business. If you qualify as a financial services entity because you treat certain items of income as active financing income under Regulations section 1.904-4(e)(2)(i)(Y), you must show the type and amount of each item on an attachment to Form 1116.

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

d. General Category Income

General category income is income that isn't section 951A category income, foreign branch category income, passive category income, or income described in categories e, f, and g, discussed later. General category income may include the following.

- Wages, salary, and overseas allowances of an individual as an employee.
- Income earned in the active conduct of a trade or business.
- Gains from the sale of inventory or depreciable property used in a trade or business. See Pub. 514 for additional details.

e. Section 901(j) Income

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

Note: A foreign tax credit may be claimed for foreign taxes paid or accrued with respect to section 901(j) income if such tax is paid or accrued to a country other than a sanctioned country. For example, if a U.S. citizen resident in a non-sanctioned country pays a residence-based income tax in that country on income derived from business activities in a sanctioned country, those foreign taxes would be eligible for a foreign tax credit. In this situation, you would continue completing Form 1116 and not stop at line 17.

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

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

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

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

f. Certain Income Re-Sourced by Treaty

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

Important: You must compute a separate foreign tax credit limitation for any income for which you claim benefits under a treaty, using a separate Form 1116 for each amount of re-sourced income from a treaty country. This rule doesn't apply to income that is re-sourced by reason of the relief from double taxation rules in any U.S. income tax treaty that is solely applicable to U.S. citizens who are residents of the foreign treaty country. See sections 865(h), 904(d)(6), and 904(h)(10) and the regulations under those sections (including 1.904-4(k)) for any grouping rules and other exceptions. Add the amounts from line 24 of each separate Form 1116 and enter the total on line 30 of your summary Form 1116 (that is, the Form 1116 for which you are completing Part IV). In addition, you may be required to file Form 8833, Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b), for the re-sourced income.

g. Lump-Sum Distributions

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

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

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

1.	Enter the amount from Form 1116, line 8	1.
2.	Enter the sum of the amounts from Form 4972, lines 6 and 12, that are from **foreign** sources. Also enter this amount on Form 1116, line 17	2.
3.	Enter the sum of the amounts from Form 4972, lines 6 and 12, that are from **all** sources (both U.S. and foreign). Also enter this amount on Form 1116, line 18	3.
4.	Divide line 2 by line 3. Enter the result as a decimal (rounded to at least four places) here and on Form 1116, line 19. If line 2 is equal to or more than line 3, enter "1"	4.
5.	Enter the amount from Form 4972, line 30. Also include this amount on Form 1116, line 20	5.
	Caution: **Don't** include the amount on line 5 above in the tax you enter on line 20 of any other Form 1116 you are filing.	
6.	Multiply line 5 by line 4. Enter the result here and on Form 1116, line 21	6.
7.	Enter the **smaller** of line 1 or line 6 here and on Form 1116, line 24. To the left of line 24, enter "LSD"	7.

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

Special Rules

Look-Through Rules

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

Reporting Foreign Tax Information From Partnerships and S Corporations

If you received a Schedule K-3 from a partnership or S corporation that includes foreign tax information, use the rules below to report that information on Form 1116.

Note: The partnership or S corporation may be excepted from providing Schedule K-3 to you if the partnership or S corporation has limited foreign activity. You still have the right to request Schedule K-3 and it may provide information that can increase your foreign tax credit. See the partnership and S corporation instructions for Form 1065 and Form 1120-S, Schedules K-2 and K-3, and the partner and shareholder instructions for Forms 1065 and 1120-S, Schedule K-3, available at *IRS.gov/Form1065* and *IRS.gov/Form1120S*, respectively, for further information.

General Information for Partners and S Corporation Shareholders

Less-than-10% limited partners. If you are a limited partner and you own a less-than-10% interest (by value) in the partnership, you must generally categorize your distributive share of foreign source income and deductions from that partnership as passive income. See the Partner's Instructions for Schedule K-3 (Form 1065) and Regulations section 1.904-4(n) for more details and exceptions.

Reporting amounts on Form 1116. Include amounts reported to you on Schedule K-3 with any other amounts reportable on Form 1116 using:

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

Note: For any item that isn't reported by country on Schedule K-3, you may use any reasonable method to allocate it between countries or territories on Form 1116.

Explanation of Certain Line Items on Schedule K-3 for Forms 1065, 1120-S, and 8865

Forms 1065, 1120-S, and 8865, Schedule K-3, Part II, Section 1, columns (b) through (e)—Foreign gross income sourced at partnership or S corporation level. Income reported in these columns has already been sourced for you by the partnership or S corporation. The partnership or S corporation has reported this income to you by country and by category of income. Include these amounts in Part I of each of the applicable Forms 1116 (that is, a separate Form 1116 for each category of income you received). See the partner and shareholder instructions for Forms 1065 and 1120-S, Schedule K-3, for further information.

Forms 1065, 1120-S, and 8865, Schedule K-3, Part II, Section 1, column (f)—Gross income sourced by partner or shareholder. This column includes income from the sale of eligible personal property (most personal property other than inventory, depreciable property, and certain intangible property). See Pub. 514 for details. You must first determine (using the rules described next) whether the income in this column is U.S. source income or foreign source income. Then, only enter the foreign source income in Part I of each of the applicable Forms 1116 (that is, a separate Form 1116 for each category of income you received).

Use the following rules to source the income reported to you in this column of Schedule K-3. If you are a U.S. resident (as defined next), the income is U.S. source income. If you are a nonresident (as defined later), the income is foreign source income. See the partner and shareholder instructions

for Forms 1065 and 1120-S, Schedule K-3, for further information.

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

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

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

Note: To help you with these rules, the partnership or S corporation has specifically identified the following on an attachment to Form 1065, 1120-S, or 8865. See box 1 of Schedule K-3, Part I.

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

Include foreign source income in Part I of the applicable Form 1116 (that is, the Form 1116 for the applicable category of income). Don't include in Part I of Form 1116 income that you determined (using these rules) to be U.S. source income.

Caution: If the partnership or S corporation has specifically identified any capital gains or losses or unrecaptured section 1250 gain on Schedule K-3, Part II, Section 1, line 8, or lines 11 through 15, and you have determined that those gains or losses are foreign source, see *Foreign Qualified Dividends and Capital Gains (Losses)*, later, before entering an amount in Part I of Form 1116. See the partner and shareholder instructions for Forms 1065 and 1120-S, Schedule K-3, for further information.

Forms 1065, 1120-S, and 8865, Schedule K-3, Part II, Section 1, line 24, column (g)—Total gross income. Combine your distributive share of "Total gross income" from Schedule K-3 with all of your other gross income and enter the total on line 3e. Note that you must include the total for all countries in each column of line 3e. "Gross income from all sources" is a constant amount (that is, you will enter the same amount on line 3e for each column of all Forms 1116 that you file).

Forms 1065, 1120-S, and 8865, Schedule K-3, Part II, Section 2, lines 25 through 38, and 44 through 50, columns (b) through (e)—Deductions allocated and apportioned at partnership or S corporation level to foreign source income. The partnership or S corporation has already allocated these expenses to foreign source income and has reported them to you by category of income. Include these amounts on line 2 of each of the applicable Forms 1116 (that is, a separate Form 1116 for each category of income you received). See the partner and shareholder instructions for Forms 1065 and 1120-S, Schedule K-3, for further information.

Forms 1065, 1120-S, and 8865, Schedule K-3, Part II, Section 2, lines 25 through 38, and 44 through 50, column (f)—Other expenses. These lines in column (f) include expenses (other than interest expense) of the partnership or S corporation that must be allocated and apportioned at the partner or shareholder level (for example, research and experimental (R&E) expenses on line 32).

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

Forms 1065, 1120-S, and 8865, Schedule K-3, Part III, Section 1, reports information you will need to allocate and apportion R&E expenses. Forms 1065 and 8865, Schedule K-3, Part III, Section 3, reports information you will need to allocate and apportion the foreign-derived intangible income deduction to foreign source income in separate categories. Include expenses that you allocate to foreign source income on line 2 of the applicable Form 1116. Expenses that you allocate to U.S. source income shouldn't be entered on any line of Part I of Form 1116. See the partner and shareholder instructions for Forms 1065 and 1120-S, Schedule K-3, for further information.

Forms 1065, 1120-S, and 8865, Schedule K-3, Part II, Section 2, lines 39 through 43—Interest expense. See the instructions for line 4b, later, to allocate and apportion the interest expense shown on these lines of Schedule K-3. In applying those instructions, take into account your distributive share of the partnership's or S corporation's gross income (for purposes of the $5,000 threshold) or your pro rata share of the partnership's or S corporation's assets. See Forms 1065, 1120-S, and 8865, Schedule K-3, Part III, Section 2, for the share of the partnership's or S corporation's assets. However, if you were a limited partner and your interest in the partnership was less than 10%, see the next paragraph. Include interest expense that you allocate to foreign source income on line 4b of the applicable Form 1116. Don't enter in Part I of Form 1116 any interest expense that you allocate to U.S. source income.

Less-than-10% limited partners. If you are a limited partner and you own (directly or indirectly) a less-than-10% interest (by income) in the partnership, you may generally allocate your distributive share of interest expense from that partnership to foreign or U.S. source income based on your distributive share of the gross foreign or U.S. source income of that partnership. The interest expense you allocate to foreign source income may generally be apportioned exclusively to passive category income. However, see Temporary Regulations section 1.861-9T(e)(4) for exceptions. See the Partner's Instructions for Schedule K-3 (Form 1065) for further information.

Forms 1065 and 8865, Schedule K-3, Part III, Section 4, line 1; and Form 1120-S, Schedule K-3, Part III, Section 3, line 1—Foreign taxes. The partnership or S corporation has already allocated and apportioned total foreign taxes for you and has reported them to you by country and by category of income. Include these amounts in Part II of each of the applicable Forms 1116 (that is, a separate Form 1116 for each category of income you received). See the partner and shareholder instructions for Forms 1065 and 1120-S, Schedule K-3, for further information.

Forms 1065 and 8865, Schedule K-3, Part III, Section 4, line 2; and Form 1120-S, Schedule K-3, Part III, Section 3, line 2—Reduction of taxes. The partnership or S corporation has already apportioned the reduction in taxes available for credit and has reported it to you by category of income. Include these amounts on line 12 of each of the applicable Forms 1116 (that is, a separate Form 1116 for each category of income you received). See the partner and shareholder instructions for Forms 1065 and 1120-S, Schedule K-3, for further information.

Forms 1065 and 8865, Schedule K-3, Part III, Section 4, line 3; and Form 1120-S, Schedule K-3, Part III, Section 3, line 3—Foreign tax redeterminations. The partnership or S corporation has already apportioned the change in foreign income tax liability and has reported it to you by country and by category of income. Include these amounts on each of the applicable Schedules C (Form 1116) (that is, a separate Schedule C (Form 1116) for each category of income you received). See the partner and shareholder instructions for Forms 1065 and 1120-S, Schedule K-3, for further information.

Note: See the partner and shareholder instructions for Forms 1065 and 1120-S, Schedule K-3, Parts I, II, and III, for information related to foreign oil and gas taxes, high-taxed income, partner loan transactions, foreign tax redeterminations, and other information that may be necessary to complete Form 1116.

Foreign Qualified Dividends and Capital Gains (Losses)

Tip: Qualified dividends are the amounts you entered on Form 1040, 1040-SR, or 1040-NR, line 3a.

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

If you completed the Qualified Dividends and Capital Gain Tax Worksheet in the Instructions for Form 1040, and aren't required to file Schedule D, see *Qualified Dividends and Capital Gain Tax Worksheet (Individuals)* next to determine the adjustments you may be required to make. If you completed the Qualified Dividends Tax Worksheet in the Instructions for Form 1041, see *Qualified Dividends Tax Worksheet (Estates and Trusts)*, later, to determine the adjustments you may be required to make. If you are required to file Schedule D, see *Schedule D Filers*, later, to determine the adjustments you may be required to make.

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

Qualified Dividends and Capital Gain Tax Worksheet (Individuals)

If you completed the Qualified Dividends and Capital Gain Tax Worksheet in the Instructions for Form 1040 and you don't have to file Schedule D, you may have to adjust the amount of your foreign source qualified dividends and capital gain distributions.

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

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

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

You qualify for the adjustment exception if you meet both of the following requirements.

1. Line 5 of the Qualified Dividends and Capital Gain Tax Worksheet doesn't exceed:

   a. $394,600 if married filing jointly or qualifying surviving spouse,

   b. $197,300 if married filing separately,

   c. $197,300 if single, or

   d. $197,300 if head of household.

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

If you are subject to the AMT, see the special rules in Regulations section 1.904(b)-1(b)(3).

How to make adjustments. To adjust your foreign source qualified dividends or capital gain distributions, multiply your foreign source qualified dividends or capital gain distributions in each separate category by 0.4054 if the foreign source qualified dividends or capital gain distributions are taxed at a rate of 15%, and by 0.5405 if they are taxed at a 20% rate. Include the results on line 1a of the applicable Form 1116.

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

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

Qualified Dividends Tax Worksheet (Estates and Trusts)

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

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

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

See section 904(b) and the regulations issued under that Code section to determine if you qualify for the adjustment exception.

How to make adjustments. To adjust your foreign source qualified dividends, multiply your foreign source qualified dividends in each separate category by 0.4054 if the foreign source qualified dividends are taxed at a rate of 15%, and by 0.5405 if they are taxed at a 20% rate. Include the results on line 1a.

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

Caution: Don't adjust the amount of any foreign source qualified dividends that you elected to include on Form 4952, line 4g.

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

Schedule D Filers

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

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

1. You figured your tax using the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040 instructions, line 5 of that worksheet is greater than zero, and line 23 of that worksheet is less than line 24.

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

3. You figured your tax using the Schedule D Tax Worksheet (in the Schedule D (Form 1040) instructions), line 18 of the Schedule D Tax Worksheet is greater than zero, and line 45 of the Schedule D Tax Worksheet is less than line 46.

4. You figured your tax using the Schedule D Tax Worksheet (in the Schedule D (Form 1041) instructions), line 17a of the Schedule D Tax Worksheet is greater than zero, and line 42 of the Schedule D Tax Worksheet is less than line 43.

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

You qualify for the adjustment exception if you meet both of the following requirements.

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

   a. $394,600 if married filing jointly or qualifying surviving spouse,

   b. $197,300 if married filing separately,

   c. $197,300 if single, or

   d. $197,300 if head of household.

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

For trusts and estates, see section 904(b) and the regulations issued under that Code section to determine if you qualify for the adjustment exception.

If you are subject to the AMT, see the special rules in Regulations section 1.904(b)-1(b)(3).

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

How to make adjustments. To adjust your foreign source qualified dividends, multiply your foreign source qualified dividends in each separate category by 0.4054 if the foreign source qualified dividends are taxed at a rate of 15%, and by 0.5405 if they are taxed at a 20% rate. Include the results on line 1a of the applicable Form 1116.

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

Caution: Don't adjust the amount of any foreign source qualified dividends that you elected to include on Form 4952, line 4g.

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

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

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

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

- You qualify for the adjustment exception discussed earlier under *Adjustments to foreign qualified dividends* under *Schedule D Filers* and you didn't make any adjustments to your foreign qualified dividends (if any).
- Line 15 or 16 of Schedule D (Form 1040) (line 18a or 19 of Schedule D (Form 1041)) is zero or a loss.
- You figured your tax using the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040 instructions and (a) line 3 of that worksheet is zero or less, (b) line 5 of

that worksheet is zero, or (c) line 23 of that worksheet is equal to or greater than line 24.

- You figured your tax using Schedule D (Form 1041) and (a) line 27 of Schedule D is zero; (b) line 22 of Schedule D minus the amount on Form 4952, line 4e, that you elected to include on Form 4952, line 4g, is zero or less; or (c) line 43 is equal to or greater than line 44.
- You figured your tax using the Schedule D Tax Worksheet (in the Schedule D (Form 1040) instructions) and (a) line 18 is zero, (b) line 9 is zero or less, or (c) line 45 is equal to or greater than line 46.
- You figured your tax using the Schedule D Tax Worksheet (in the Schedule D (Form 1041) instructions) and (a) line 17a is zero, (b) line 9 is zero or less, or (c) line 42 is equal to or greater than line 43.

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

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

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

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

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

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

Specific Instructions

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

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

Line i—Foreign Country or U.S. Territory

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

Foreign tax credit splitting event. If you had a foreign tax credit splitting event in a previous year and you are taking the related income into account in 2025, enter "909 income" on line i for that income instead of the country or territory name.

Section 863(b) gross income and deductions. You don't need to report section 863(b) income (certain income from services or inventory that is partly from U.S. source and partly from foreign source) on a per-country basis. Total **all** section 863(b) foreign source income in the applicable category and enter the total in a single column in Part I. Enter "863(b)" on line i. Total **all** section 863(b) deductions in the applicable category and in the same column enter the totals on lines 2 through 6. Total **all** foreign taxes imposed on section 863(b) income and enter the total on a single line in Part II for the applicable category.

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

Inclusions under section 951A. Because computations for inclusions under section 951A are reported on separate Forms 8992, U.S. Shareholder Calculation of Global Intangible Low-Taxed Income, you don't need to report those inclusions on a country-by-country basis. Enter the total inclusion in a single column in Part I and enter "951A" on line i.

High-taxed income. Passive income doesn't include high-taxed income. High-taxed income is income if the foreign taxes you paid on the income (after allocation of expenses) exceed the highest U.S. tax that can be imposed on the income. See Regulations section 1.904-4(c) for more information. If you have passive income that is high-taxed income, use a separate column in Part I. Enter "HTKO" on line i of Forms 1116 for passive category income and the other category of income to which such passive category income is reclassified. On your Form 1116 for passive category income, passive income that is treated as another category of income because it is high taxed should be included on line 1a in the column for the country entered on line i. Also, enter the high-taxed income in the "HTKO" column on line 1a as a negative number. On your Form 1116 for the other category of income, the high-taxed income should be entered as a positive number on line 1a in the "HTKO" column. Don't enter any amounts on lines 2 through 5 for your "HTKO" column. Add all deductions that are definitely related or apportioned to passive income that is treated as another category of income because it is high taxed and enter the total amount of those deductions on line 6 in the appropriate "HTKO" column. Enter the amount as a negative number in the "HTKO" column on your Form 1116 for passive category income. Enter the amount as a positive number in the "HTKO" column on your Form 1116 for the other category of income. See the instructions for line 13, later.

Lines 1a and 1b—Foreign Gross Income

Include income in the category checked above Part I that is taxable by the United States and is from sources within the country entered on line i, even if isn't taxable by that foreign country. Identify the type of income on the dotted line next to line 1a. Don't include any earned income excluded on Form 2555, Foreign Earned Income.

Example. If you received dividends (passive category income) and wages (general category income) from foreign sources, you must complete two Forms 1116. On one Form 1116, check box c (passive category income), enter the dividends on line 1a, and enter "Dividends" on the dotted line. On the other Form 1116, check box d (general category income), enter on line 1a wages not excluded on Form 2555,

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

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

Instructions for Worksheet A

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

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

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

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

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

Line 5.

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

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

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

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

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

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

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

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

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

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

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

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

Line 11. Multiply each amount on line 10 by 0.4054 and enter the results here.

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

Line 13. Multiply the amount on line 7 by 0.4054 and enter the result here in the applicable column.

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

Line 15.
If you have a:
- Short-term gain shown in column (1) or (3) of line 3, enter the amount of that short-term gain on line 15, column (1) or (3).
- Long-term gain shown in column (2) or (4) of line 3, and line 6 is blank, multiply the amount of each gain by 0.4054 and enter the result on line 15, column (2) or (4).
- Short-term loss in any column of line 1, complete the Line 15 Worksheet for each column with a loss.
- Long-term loss in column (2) or (4) of line 1, multiply the amount of the loss by 0.4054 and enter the result on line 15 in the appropriate column.

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

Line 2 Worksheet (For Line 2 of Worksheet B) ***Keep for Your Records***

(See instructions below.)

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

Instructions for Line 2 Worksheet

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

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

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

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

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

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

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

Line 7.
For each separate category, the following rules apply.
- If you entered an amount on line 6 and you entered positive amounts in both the short-term and long-term columns on line 1, divide each positive amount on line 1 by line 2 and enter the results in the appropriate columns.
- Leave line 7 blank if you didn't enter an amount on line 6 or only one column on line 1 has a positive amount.

Line 8.
For each separate category, the following rules apply.
- If you entered amounts on line 7, multiply each amount on line 7 by line 6. Enter the results in the appropriate columns on line 8 of this worksheet and on line 2 of Worksheet B.
- If line 7 is blank, enter the amount from line 6 in the same column on line 8 as the column that has a gain on line 1. Also, enter the amount on line 2 of Worksheet B in the appropriate column. If line 6 is blank, don't enter any amount on line 8 of this worksheet or line 2 of Worksheet B.

Line 15 Worksheet (For Line 15 of Worksheet B) *Keep for Your Records*

1. Enter your net short-term capital gain (if any) from U.S. sources. To determine this amount, subtract your short-term capital losses from U.S. sources from your short-term capital gains from U.S. sources. If the result is zero or a loss, enter -0- . . . . . **1.** _____

2. If you entered a short-term gain on line 3 of Worksheet B, enter that amount here . . . . . **2.** _____

3. Add lines 1 and 2 . . . . . **3.** _____

4. Did you enter a short-term capital loss on line 1 of Worksheet B for one (but not both) of the separate categories?

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

☐ **No.** Skip lines 5–10 and go to line 11.

5. Enter the short-term capital loss from line 1 of Worksheet B **(enter the loss as a positive amount)** . . . . . **5.** _____

6. Enter the gain, if any, determined on line 3. If line 3 isn't a gain, enter -0- . . . . . **6.** _____

7. Subtract line 6 from line 5. If zero or a loss, enter -0- . . . . . **7.** _____

8. Multiply line 7 by 0.4054 . . . . . **8.** _____

9. Enter the smaller of line 5 or line 6 . . . . . **9.** _____

10. Add lines 8 and 9. Enter the result here and on line 15 of Worksheet B . . . . . **10.** _____

11. Is the amount on line 1 zero?

☐ **Yes.** Multiply each short-term loss by 0.4054. Enter the results on line 15 of Worksheet B. Skip the rest of this worksheet.

☐ **No.** Go to line 12.

12. Enter your short-term loss from column (1) of Worksheet B, line 1 **(enter the loss as a positive amount)** . . . . . **12.** _____

13. Enter your short-term loss from column (3) of Worksheet B, line 1 **(enter the loss as a positive amount)** . . . . . **13.** _____

14. Add lines 12 and 13 . . . . . **14.** _____

15. Enter the gain determined on line 1 . . . . . **15.** _____

16. Subtract line 15 from line 14 . . . . . **16.** _____

Is the result zero or less?

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

☐ **No.** Complete lines 17–22.

17. Multiply line 16 by 0.4054 . . . . . **17.** _____

18. Add lines 15 and 17 . . . . . **18.** _____

19. Divide line 12 by line 14 . . . . . **19.** _____

20. Multiply line 19 by line 18. Enter the result here and in column (1) of Worksheet B, line 15 . . . . . **20.** _____

21. Divide line 13 by line 14 . . . . . **21.** _____

22. Multiply line 21 by line 18. Enter the result here and in column (3) of Worksheet B, line 15 . . . . . **22.** _____

and enter "Wages" on the dotted line. Complete Parts I, II, and III of each Form 1116. Then, complete Part IV on the Form 1116 with the larger amount entered on line 24.

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

Line 1b

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

In addition, attach to Form 1116 a statement that contains the following information.
- Your name and social security number (written across the top of the statement).
- The specific compensation income or the specific fringe benefit for which the alternative basis is used.
- For each such item, the alternative basis of allocation of source used.
- For each such item, a computation showing how the alternative allocation was computed.
- A comparison of the dollar amount of the compensation sourced within and without the United States under both the alternative basis and the time or geographical basis for determining the source.

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

Lines 2 Through 5—Deductions and Losses

You must reduce your foreign gross income on line 1a by entering on lines 2 through 5:
- Any of your deductions that definitely relate to that foreign income; and
- A ratable share of your other deductions that don't definitely relate to that foreign income, any other foreign income, or U.S. source income.

If you don't itemize deductions, enter your standard deduction on line 3a, and don't enter on lines 2 through 5 any deductions that would have been reported on Schedule A (Form 1040). Don't include deductions and losses related to exempt or excluded income such as foreign earned income you have excluded on Form 2555 on lines 2 through 5.

Special rules apply to the allocation of R&E expenditures. See Regulations section 1.861-17.

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

Caution: The deduction for state and local taxes on Schedule A (Form 1040), lines 5a through 5c, is limited. See the Instructions for Schedule A (Form 1040). Don't include more state and local taxes on Form 1116, lines 2 and 3a, than the amount reported on Schedule A (Form 1040), line 5e.

Line 2

Enter your deductions that definitely relate to the gross income from foreign sources shown on line 1a. For example, if you are reporting foreign business income on line 1a, include on line 2 business expenses such as supplies and advertising incurred as part of operating the foreign business. Also include on line 2 state and local income taxes related to foreign source income. For more information, see Pub. 514 and section 861 and the regulations under that section. Attach a statement listing the separate expenses included on line 2.

Don't include any interest expense on line 2. See lines 4a and 4b for special rules for interest expense.

Lines 3a and 3b

Some deductions don't definitely relate to either your foreign source income or your U.S. source income. Enter on lines 3a and 3b any deductions (other than interest expense) that:
- Aren't shown on line 2, and
- Aren't definitely related to your U.S. source income.

Line 3a. Include the following itemized deductions (from Schedule A (Form 1040)) on line 3a.
- Medical expenses (line 4).
- General sales taxes.
- Real estate taxes for your home.
- State and local personal property taxes.

If you don't itemize deductions, enter your standard deduction on line 3a.

Line 3b. Enter on line 3b any other deductions that don't definitely relate to any specific type of income (for example, deductions shown on Schedule 1 (Form 1040), Part II, Adjustments to Income). Don't include the enhanced deduction for seniors shown on Schedule 1-A (Form 1040), line 37. The qualified passenger vehicle loan interest deduction reported on Schedule 1-A (Form 1040), line 30, is reported on line 4b.

Attach a statement listing the separate expenses included on lines 3a and 3b.

Lines 3d and 3e

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

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

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

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

Line 3e. Enter on line 3e in each column your gross income from all sources and all categories, both U.S. and foreign. "Gross income from all sources" is a constant amount (that is, you will enter the same amount on line 3e for each column of all Forms 1116 that you file). Include any foreign earned

income you have excluded on Form 2555 but don't include any other exempt income.

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

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

Line 3f

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

Line 4a

If your gross foreign source income (including income excluded on Form 2555) doesn't exceed $5,000, you can allocate all of your interest expense to U.S. source income. Otherwise, deductible home mortgage interest including points is apportioned using a gross income method. Use the Worksheet for Home Mortgage Interest to figure the amount to enter on line 4a.

Line 4b

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

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

Line 5

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

Part II—Foreign Taxes Paid or Accrued

Caution: See *General Instructions*, earlier, for descriptions of foreign taxes that are eligible for the foreign tax credit and for foreign taxes that aren't eligible for the foreign tax credit.

Generally, you can take a foreign tax credit in the tax year you paid or accrued the foreign taxes, depending on your method of accounting. If you report on the cash basis, you can choose to take the credit for accrued taxes by checking the "Accrued" box in Part II on a timely filed original return. You can't make this choice on an amended return. Once you choose to do this, you must credit foreign taxes in the year they accrue on all future returns.

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

Enter in Part II the foreign taxes that were previously suspended under section 909 and that are allowed in 2025 because the related income is taken into account in 2025. Enter "909 taxes" in column (l) instead of the date paid or accrued. Complete the other columns as appropriate.

If you paid or accrued foreign taxes (such as withholding taxes) that were imposed on a distribution to you of earnings

Worksheet for Home Mortgage Interest—Line 4a

Keep for Your Records

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

1.	Enter gross foreign source income* of the type shown on Form 1116. **Don't** enter income excluded on Form 2555	**1.**
2.	Enter gross income from all sources. **Don't** enter income excluded on Form 2555	**2.**
3.	Divide line 1 by line 2 and enter the result as a decimal (rounded to at least four places)	**3.**
4.	Enter deductible home mortgage interest (from line 8e of Schedule A (Form 1040))	**4.**
5.	Multiply line 4 by line 3. Enter the result here and on the appropriate Form 1116, line 4a	**5.**

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

that you previously included in gross income under sections 951(a) and 951A(a) (see *Foreign Taxes Eligible for a Credit*, earlier), enter such taxes (reduced pursuant to sections 965(g) and 960(d)(4), if applicable) in columns (p) and (t) on the Form 1116 for the appropriate separate category. Section 960(d)(4) applies to foreign income taxes paid or accrued with respect to any amount excluded from gross income under section 959(a) by reason of an inclusion in gross income under section 951A(a) after June 28, 2025. Enter only foreign taxes (reduced as applicable) that you paid or accrued; don't enter any taxes that you were deemed to pay under section 960(b)(1).

Tip: If foreign tax paid on passive income is reported to you in U.S. dollars on a Form 1099-DIV, 1099-INT, or similar statement, you don't have to convert the amount shown into foreign currency. This rule applies whether or not you can make the election to claim the foreign tax credit without filing Form 1116 (as explained earlier). Enter "1099 taxes" in column (l) of Part II, and complete columns (q) through (u) for each foreign country indicated in Part I.

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

Part III—Figuring the Credit

Line 10

Enter the unused foreign taxes in the separate category from another tax year that are eligible to be carried forward to or back to 2025. The amount of foreign taxes carried forward to the current tax year is the amount in column (xiv) of Schedule B (Form 1116), line 3. Attach Schedule B (Form 1116) to your Form 1116 for each applicable separate category of income if you enter a carryover of foreign taxes from a prior tax year on Form 1116, line 10, or if you generated a foreign tax carryover in the current year. You don't need to file Schedule B (Form 1116) for 2025 if you carry back a foreign tax to 2025, and don't otherwise need to file Schedule B (Form 1116). See the Instructions for Schedule B (Form 1116) for more information.

Tip: If you enter an amount on line 10 and you don't need to attach Schedule B, check the box on line 10.

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

Special rules apply to the carryback and carryforward of foreign taxes paid or accrued on foreign oil and gas income. See section 907(f).

No foreign tax carryovers are allowed for foreign taxes paid or accrued on section 951A category income. Leave line 10 of Form 1116 blank if you complete a Form 1116 for section 951A category income, as carrybacks and carryovers aren't allowed for this category of income.

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

Special rules for carryforwards of pre-2018 unused foreign taxes. Unused foreign taxes in the pre-2018 separate category for general income carried forward are generally allocated to your post-2017 separate category for general income. Alternatively, you can allocate those foreign taxes to the post-2017 separate category for foreign branch category income to the extent the unused foreign taxes would have been allocated to your post-2017 separate category for foreign branch category income, and would have been unused foreign taxes with respect to that separate category, if that separate category had applied in the year or years the unused foreign taxes arose. A simplified safe harbor is also available for determining the portion of the unused foreign taxes that may be allocated to the post-2017 separate category for foreign branch category income. See Regulations section 1.904-2(j)(1)(iii) for further details.

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

If, for any year, you elected to claim the foreign tax credit without filing Form 1116 (as explained earlier), the following rules apply.

- You can't carry over unused foreign taxes paid or accrued in a year to which the election doesn't apply to or from any year for which you made the election.
- The carryback-carryforward period isn't extended if you are unable to use a carryback or carryforward because you made the election.
- Don't reduce the carryback or carryforward by the amount you would have used in the election year if you hadn't made the election.

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

Line 12

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

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

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

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

income subject to foreign tax minus deductible expenses allocable to that income.

- **Taxes on income from Puerto Rico exempt from U.S. tax.** The reduction applies if you have income from Puerto Rican sources that isn't taxable on your U.S. tax return. To figure the credit, reduce your foreign taxes paid or accrued by the taxes allocable to the exempt income. See Pub. 570 for more information.
- **Taxes on income from American Samoa excluded on Form 4563.** If you are a bona fide resident of American Samoa, reduce taxes paid or accrued by any taxes attributable to income from sources in American Samoa excluded on Form 4563. For more information, see Pub. 570.
- **Taxes on combined foreign oil and gas income.** Reduce taxes paid or accrued by a portion of taxes imposed on combined foreign oil and gas income. The amount of the reduction is the amount by which your foreign oil and gas taxes exceed the amount of your combined foreign oil and gas income for the year multiplied by a fraction equal to your pre-credit U.S. tax liability divided by your worldwide taxable income. You may be entitled to carry over to other years taxes reduced under this rule. See section 907(f).

Combined foreign oil and gas income is the sum of foreign oil-related income and foreign oil and gas extraction income. Foreign oil and gas taxes are the sum of foreign oil and gas extraction taxes and foreign oil-related taxes.

- **Taxes on foreign mineral income.** Reduce taxes paid or accrued on mineral income from a foreign country or U.S. territory if you took a deduction for percentage depletion under section 613 for any part of the mineral income.
- **Reduction for failure to file Form 5471.** U.S. shareholders who control a foreign corporation must file Form 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations. If you don't file Form 5471 and furnish all of the information required by the due date of your tax return, reduce by 10% all foreign taxes that you may otherwise take into account for the foreign tax credit. You may have to make additional reductions if the failure continues. See section 6038(c) and Regulations section 1.6038-2(k) for details and exceptions.

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

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

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

- **Reduction of taxes or credit due to international boycott operations.** In general, if you agree to participate in, or cooperate with, an international boycott, you must file Form 5713, International Boycott Report, and attach all supporting schedules. In addition, you must reduce either the total taxes available for credit or the credit otherwise allowable by your foreign taxes resulting from boycott activities. If you can figure the taxes specifically attributable to boycott operations, enter the amount on line 12. If you can't figure the amount of taxes specifically attributable to boycott operations, multiply the credit otherwise allowable by the international boycott factor (figured on Schedule A (Form 5713), International Boycott Factor) and enter the result on Form 1116, line 34. Attach a statement to Form 1116 showing in detail how you figured the reduction.

For more information, see Form 5713 and its instructions.

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

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

A covered asset acquisition under section 901(m) isn't a foreign tax credit splitting event under section 909.

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

Line 13

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

Line 15

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

Line 16

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

The adjustments are as follows.

1. Adjustment for disallowed business loss under section 461(l). Increase the amount on line 15 by the amount of any business loss that is disallowed under section 461(l) to the extent it is attributable to the separate category of income of the applicable Form 1116. For purposes of adjustments 2–6 described below, any reference to an amount on line 15 shall mean the amount on line 15 after taking into account this adjustment for disallowed business loss.

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

If the loss reduces foreign source income, you must create, or increase the balance in, a separate limitation loss account and you must recharacterize the income you receive in the loss category in later years. See *5. Recapture of separate limitation loss accounts*, later. In situations where the loss to be allocated exceeds foreign income in other categories:

- The excess reduces U.S. source income (as modified under *Capital losses* next);
- You must create, or increase the balance in, an overall foreign loss account; and
- For later years, you must follow the rules described under *4. Recapture of prior-year overall foreign loss accounts*, later.

If the loss in one category reduces foreign source income in another category and that second category has a separate limitation loss account with respect to the first category, then the two offsetting separate limitation loss account balances are netted for purposes of determining the amount of income in either category that is subject to recharacterization under *5. Recapture of separate limitation loss accounts*, later.

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

Example. For 2025, you completed three Forms 1116. The first had a loss from general category income of $2,000 on line 15, the second had passive category income of $4,000 on line 15, and the third had income of $1,000 from the certain income re-sourced by treaty category on line 15. You must allocate the $2,000 loss between the passive category income and the certain income re-sourced by treaty category in the same proportion as each category's income bears to the total foreign income.

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

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

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

If you receive general category income in a later year, you must recharacterize all or part of that income as passive category income and certain income re-sourced by treaty in that later year. See the example under *5. Recapture of separate limitation loss accounts*, later.

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

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

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

b. The amount computed for purposes of line 18 of Form 1116 (this amount may be a loss).

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

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

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

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

i. The current-year taxable income from foreign sources in that category (the amount from line 15, less any adjustment for allocation of losses, as described earlier under *2. Allocation of foreign losses* and *3. Allocation of U.S. losses* for that category); or

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

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

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

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

Reduce the amount on line 15 by including (in parentheses) on line 16 the amount of the recapture for the category checked above Part I, as determined above. Be

sure to attach your computation. If you elect to recapture more of an overall foreign loss than is required ((b) above), show in your computation the percentage of taxable income recharacterized and the dollar amount recharacterized.

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

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

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

Reduce line 15 by including (in parentheses) on line 16 the smallest of:

a. The amount of the gain not recaptured above;

b. The remaining amount of the overall foreign loss not recaptured in earlier years or in the current year; or

c. The amount from line 15 (less any adjustment for allocation of losses, as described earlier under *2. Allocation of foreign losses* and *3. Allocation of U.S. losses*, and any adjustment for any recapture above).

See Pub. 514 if you disposed of property described above and you recognized foreign source gain in a different category than the overall foreign loss, you recognized U.S. source gain, or you didn't recognize gain.

5. Recapture of separate limitation loss accounts. If, in a prior tax year, you reduced your foreign taxable income in the category checked above Part I by a pro rata share of a loss from another category, you must recharacterize in 2025 all or part of any income you receive in 2025 in that loss category. If you have separate limitation loss accounts in the loss category relating to more than one other category and the total balances in those loss accounts exceed the income you receive in 2025 in the loss category, then income in the loss category is recharacterized as income in those other categories in proportion to the balances of the separate limitation loss accounts for those other categories. You recharacterize the income by:

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

Example. Using the facts in the *Example* under *2. Allocation of foreign losses*, earlier, in the next year (2026), you have $5,000 of general category income, $3,000 of passive category income, and $500 of certain income re-sourced by treaty. Because $1,600 of the general category income loss was used to reduce your passive category income in 2025, $1,600 of your 2026 general category income must be recharacterized as passive category income. Similarly, $400 of the general category income must be recharacterized as certain income re-sourced by treaty. On your 2026 Form 1116 for passive category income, you would include $1,600 on line 16. On your 2026 Form 1116 for certain income re-sourced by treaty, you would include $400 on line 16. On your 2026 Form 1116 for general category income, you would include ($2,000) on line 16.

Tip: Recharacterizing income from a separate category doesn't result in recharacterizing any tax.

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

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

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

Caution: Under the Tax Cuts and Jobs Act, section 904(g)(5) allows for an election to recapture up to 100% of any pre-2018 unused overall domestic loss from a prior year, as opposed to the 50% stated in the previous paragraph. This election is applicable for any tax year beginning after December 31, 2017, and before January 1, 2028.

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

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

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

Worksheet for Line 18 (Worldwide Qualified Dividends and Capital Gains) ***Keep for Your Records***

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

1.	**Individuals:** Enter the sum of (i) Form 1040, 1040-SR, or 1040-NR, line 11b, minus Form 1040, 1040-SR, or 1040-NR, line 14; **and** (ii) Schedule 1-A (Form 1040), line 37. **Estates and trusts:** Enter taxable income without the deduction for your exemption		**1.** _____
2.	Enter your worldwide 28% gains. See instructions	**2.** _____	
3.	Multiply line 2 by 0.2432	**3.** _____	
4.	Enter your worldwide 25% gains. See instructions	**4.** _____	
5.	Multiply line 4 by 0.3243	**5.** _____	
6.	Enter your worldwide 20% gains and qualified dividends. See instructions	**6.** _____	
7.	Multiply line 6 by 0.4595	**7.** _____	
8.	Enter your worldwide 15% gains and qualified dividends. See instructions	**8.** _____	
9.	Multiply line 8 by 0.5946	**9.** _____	
10.	Enter your worldwide 0% gains and qualified dividends. See instructions	**10.** _____	
11.	Add lines 3, 5, 7, 9, and 10		**11.** _____
12.	Subtract line 11 from line 1. Enter the result here and on Form 1116, line 18 (if the result is zero or less, enter -0-)		**12.** _____

Line 18

Individuals: Enter on line 18 the sum of (i) Form 1040, 1040-SR, or 1040-NR, line 11b, minus Form 1040, 1040-SR, or 1040-NR, line 14; **and** (ii) Schedule 1-A (Form 1040), line 37. **Estates and trusts:** Enter your taxable income without the deduction for your exemption. **All filers:** If the result is zero or less, enter -0- on line 18 and on line 19.

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

Individuals Who Completed a Qualified Dividends and Capital Gain Tax Worksheet

If you completed the Qualified Dividends and Capital Gain Tax Worksheet in the Instructions for Form 1040, you must use the Worksheet for Line 18 to figure the amount to enter on line 18 if:

1. Line 5 of your Qualified Dividends and Capital Gain Tax Worksheet is greater than zero, and
2. Line 23 of your Qualified Dividends and Capital Gain Tax Worksheet is less than line 24 of that worksheet.

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

If you aren't required to complete the Worksheet for Line 18 or you qualify for the adjustment exception and elect not to adjust your qualified dividends and capital gains, enter on line 18 of Form 1116 your taxable income, as described earlier under *Line 18*.

You qualify for the adjustment exception if you meet both of the following requirements.

1. Line 5 of the Qualified Dividends and Capital Gain Tax Worksheet doesn't exceed:
   a. $394,600 if married filing jointly or qualifying surviving spouse,
   b. $197,300 if married filing separately,
   c. $197,300 if single, or
   d. $197,300 if head of household.
2. The amount of your foreign source net capital gain plus the amount of your foreign source qualified dividends is less than $20,000.

If you are subject to the AMT, see the special rules in Regulations section 1.904(b)-1(b)(3).

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

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

Lines 2 through 5. Skip these lines.

Line 6. Enter the amount from line 20 of the Qualified Dividends and Capital Gain Tax Worksheet.

Line 8. Enter the amount from line 17 of the Qualified Dividends and Capital Gain Tax Worksheet.

Line 10. Enter the amount from line 9 of the Qualified Dividends and Capital Gain Tax Worksheet.

Complete all other lines as instructed on the worksheet.

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

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

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

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

Adjustment exception. If you qualify for the adjustment exception, you can elect not to adjust your qualified dividends and capital gains. You make this election by not completing the Worksheet for Line 18. You must make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you chose not to make any adjustments to those amounts when you completed lines 1a and 5. You can't make this election if you have any foreign qualified dividends or foreign capital gains (or losses) and you made adjustments to those amounts when you completed lines 1a and 5. In this case, complete the Worksheet for Line 18. See section 904(b) and the regulations issued under that Code section to determine if you qualify for the adjustment exception.

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

If you aren't required to complete the Worksheet for Line 18 or you qualify for the adjustment exception and elect not to adjust your qualified dividends and capital gains, enter on line 18 of Form 1116 the estate's or trust's taxable income without the deduction for its exemption. If this amount is zero or less, enter -0-.

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

Lines 2 through 5. Skip these lines.

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

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

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

Complete all other lines as instructed on the worksheet.

Taxpayers Who Completed the Schedule D Tax Worksheet

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

Form 1040, 1040-SR, or 1040-NR filers. You must use the Worksheet for Line 18 to figure the amount of tax to enter on line 18 of Form 1116 if:

- Line 18 of the Schedule D Tax Worksheet is greater than zero, and
- Line 45 of the Schedule D Tax Worksheet is less than line 46.

Form 1041 filers. You must use the Worksheet for Line 18 to figure the amount of tax to enter on line 18 of Form 1116 if:

- Line 17a of the Schedule D Tax Worksheet is greater than zero, and
- Line 42 of the Schedule D Tax Worksheet is less than line 43.

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

You qualify for the adjustment exception if:

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

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

   a. $394,600 if married filing jointly or qualifying surviving spouse,

   b. $197,300 if married filing separately,

   c. $197,300 if single, or

   d. $197,300 if head of household.

(Or, for trusts and estates, see section 904(b) and the regulations issued under that Code section to determine if you qualify for the adjustment exception.)

If you are subject to the AMT, see the special rules in Regulations section 1.904(b)-1(b)(3).

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

If you aren't required to complete the Worksheet for Line 18 or you qualify for the adjustment exception and elect not to adjust your qualified dividends and capital gains, enter on line 18 of Form 1116 your taxable income, as described earlier under *Line 18*.

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

Line 2. Enter the amount (if any) from line 42 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions or line 39 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions.

Line 4. Enter the amount (if any) from line 39 of the Schedule D Tax Worksheet in the Schedule D (Form 1040)

instructions or line 36 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions.

Line 6. Enter the amount (if any) from line 33 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions or line 30 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions.

Line 8. Enter the amount (if any) from line 30 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions or line 26 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions.

Line 10. Enter the amount (if any) from line 22 of the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions or line 19 of the Schedule D Tax Worksheet in the Schedule D (Form 1041) instructions.

Complete all other lines as instructed on the worksheet.

Line 19

Divide line 17 by line 18. If line 18 is zero, enter "0." If line 18 is greater than zero and line 17 is more than line 18, enter "1."

Line 20

Enter on line 20 your total U.S. income tax against which the credit is allowed (regular tax liability, as defined in section 26(b)(1)). Don't include any taxes listed in section 26(b)(2).

Note: Regular tax liability does not include the section 1411 net investment income tax.

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

Don't complete line 20 for separate category **e** (section 901(j) income), discussed earlier.

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

Individuals. Enter the total of Form 1040, 1040-SR, or 1040-NR, line 16, and Schedule 2 (Form 1040), Part I, line 1z, less any tax included on line 16 from Form 4972.

Estates and trusts.

- *Form 1041 filers.* Enter the amount from Form 1041, Schedule G, line 1a and 1d.
- *Form 990-T filers.* Enter the total of Form 990-T, Part II, lines 2, 3, 4a, 4b, and 6. However, don't include any taxes listed in section 26(b)(2) that are included on Part II, line 4b. For example, don't include the base erosion minimum tax under section 59A, and the tax and interest on a nonqualified withdrawal from a capital construction fund (section 7518).
- *Form 1040-NR filers.* Enter the amount from Form 1040-NR, line 16, less any tax included on line 16 of Form 1040-NR from Form 4972.

You may need to adjust the amount you report on Form 1116, line 20, by the amounts reported on Form 8978, line 14. If you file Form 8978, Partner's Additional Reporting Year Tax, you will need to increase or decrease the amount you report on Form 1116, line 20, by the amount of any positive or negative tax from Form 8978, line 14, that you report on your tax return and that isn't already included on the lines specified earlier. For example, for Form 1040, a positive Form 8978 adjustment is already included in the tax reported on Form 1040, line 16, while a negative tax adjustment is not. If, after your adjustment, the amount of your tax is zero or less, enter -0- on Form 1116, line 20.

Line 22

If you have included in gross income an amount of income of a CFC in prior years under section 951(a), you may have established an excess limitation account under section 960(c). If that is the case and you receive a distribution of previously taxed earnings of the CFC in the current year that are excluded from your gross income under section 959(a) and you paid or accrued foreign tax with respect to that distribution, you may be eligible for an increase in your foreign tax credit limitation under section 960(c). Report on line 22 any such increase in limitation. See section 960(c) and Regulations section 1.960-4 for more details to determine if you are eligible for an increase in limitation.

If the line 22 amount exceeds your U.S. income tax as reported on line 20, the excess is deemed an overpayment of tax and can be claimed on your income tax return as a refundable credit (Schedule 3 (Form 1040), Part II, line 13z). See section 960(c)(5).

Line 24

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

If the amount on line 23 is smaller than the amount on line 14, see Pub. 514 for more information on carryback and carryforward provisions, including examples.

Part IV—Summary of Separate Credits From Parts III

If you are filing more than one Form 1116, complete Part IV on only one Form 1116 (the one with the largest amount entered on line 24) to summarize the credits you figured on all of your Forms 1116. However, see *Exception* below. Enter the credits from line 24 of all of your Forms 1116 on lines 25 through 31 of the Form 1116 you are using to summarize your credits. File the other Forms 1116 as attachments.

Exception. If you completed a Form 1116 for category **g** (lump-sum distributions) or **e** (section 901(j) income), **don't** use Part IV of that Form 1116 as your summary, unless you are filing both a Form 1116 for category **g** and a Form 1116 for category **e** but no other category.

Line 33

Enter the smaller of line 20 or line 32.

Note: Generally, line 32 will exceed line 20 only if you have U.S. capital gains or qualified dividends that are subject to the capital gain rate differential (figured in the Worksheet for Line 18).

Schedule B (Form 1116) and Schedule C (Form 1116)

See the separate instructions for Schedule B (Form 1116) and Schedule C (Form 1116) to see if you must file these schedules.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You're required to provide this

information. You're not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103. The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual filers is approved under OMB control number 1545-0074, for tax-exempt filers under OMB control number 1545-0047, and for trust filers under OMB control number 1545-0092. For the estimated averages, see the instructions for your income tax return.