

Publication 514

Foreign Tax Credit for Individuals

For use in preparing

2023 Returns

Volume 1 of 4



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Future Developments

For the latest information about developments related to Pub. 514, such as legislation enacted after it was published, go to [IRS.gov/Pub514](https://www.irs.gov/pub514).

What's New

Final foreign tax credit regulations. Final foreign tax credit regulations were published January 4, 2022. The new regulations made changes to the rules relating to the creditability of foreign taxes under Internal Revenue Code sections 901 and 903, the applicable period for claiming a credit or deduction for foreign taxes, and the new 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 new 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 9959, 2022-03 I.R.B. 328, available at [IRS.gov/irb/2022-03_IRB#TD-9959](https://www.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](https://www.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](https://www.irs.gov/irb/2023-52_IRB#NOT-2023-80).

Reminders

Schedule K-3. Beginning in 2021, certain information that was previously reported on Schedule K-1 (Form 1065), Schedule K-1 (Form 1120-S), and Schedule K-1

(Form 8865) is now reported on Schedule K-3 (Form 1065), Schedule K-3 (Form 1120-S), and Schedule K-3 (Form 8865), respectively. In 2023, certain partnerships and S corporations are excepted from providing Schedule K-3 to partners and shareholders that might otherwise benefit from Schedule K-3 information in claiming a foreign tax credit. However, you have the right to request the Schedule K-3 from the partnership or S corporation to obtain this information. See the partnership and S corporation instructions for Schedules K-2 and K-3 (Form 1065 or 1120-S) and the partner and shareholder instructions for Schedule K-3 (Form 1065 or 1120-S), available at [IRS.gov/Form1065](https://www.irs.gov/Form1065) and [IRS.gov/Form1120S](https://www.irs.gov/Form1120S), respectively, for further information.

Alternative minimum tax. In addition to your regular income tax, you may be liable for the alternative minimum tax. A foreign tax

credit may be allowed in figuring this tax. See the Instructions for Form 6251 for a discussion of the alternative minimum tax foreign tax credit.

Change of address. If your address changes from the address shown on your last return, use Form 8822, Change of Address, to notify the IRS.

Photographs of missing children. The IRS is a proud partner with the [National Center for Missing & Exploited Children® \(NCMEC\)](#). Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

If you paid or accrued income taxes to a foreign country on foreign source income and are subject to U.S. tax on your foreign source

income, you may be able to take either a credit or an itemized deduction for those taxes. Taken as a deduction, foreign income taxes reduce your U.S. taxable income. Taken as a credit, foreign income taxes reduce your U.S. tax liability.

In most cases, it is to your advantage to take foreign income taxes as a tax credit. The major scope of this publication is the foreign tax credit. This publication discusses:

- How to choose to take the credit or the deduction,
- Who can take the credit,
- What foreign taxes qualify for the credit,
- How to figure the credit, and
- How to carry over unused foreign taxes to other tax years.

Unless you qualify for exemption from the foreign tax credit limit, you claim the credit

by filing Form 1116 with your U.S. income tax return.

Comments and suggestions. We welcome your comments about this publication and suggestions for future editions.

You can send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or, you can write to the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224.

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments and suggestions as we revise our tax forms, instructions, and publications.

Don't send tax questions, tax returns, or payments to the above address.

Getting answers to your tax questions. If you have a tax question not answered by this publication or the *How To Get Tax Help* section at the end of this publication, go to

the IRS Interactive Tax Assistant page at [IRS.gov/ Help/ITA](https://www.irs.gov/Help/ITA) where you can find topics by using the search feature or viewing the categories listed.

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Useful Items

You may want to see:

Publication

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

Form (and Instructions)

- ☐ **1116** Foreign Tax Credit
- ☐ **Schedule B (Form 1116)** Foreign Tax Carryover Reconciliation Schedule
- ☐ **Schedule C (Form 1116)** Foreign Tax Redeterminations
- ☐ **Form 7204** Consent To Extend the Time To Assess

Tax Related to Contested Foreign Income Taxes—Provisional Foreign Tax Credit Agreement

See *How To Get Tax Help* at the end of this publication for additional information.

Choosing To Take Credit or Deduction

You can choose whether to take the amount of any qualified foreign taxes paid or accrued during the year as a foreign tax credit or as an itemized deduction. You can change your choice for each year's taxes.

To choose the foreign tax credit, in most cases, you must complete Form 1116 and attach it to your U.S. tax return. However, you may qualify for the exception that allows you to claim the foreign tax credit without using Form 1116. See *How To Figure the Credit*, later. To claim the taxes as an itemized deduction, use Schedule A (Form 1040).



Figure your tax both ways—claiming the credit and claiming the deduction. Then, fill out your return the way that benefits you more. See Why Choose the Credit, later.

Choice Applies to All Qualified Foreign Taxes

As a general rule, you must choose each year to take either a credit or a deduction for all qualified foreign taxes paid or accrued in that year.

If you choose to take a credit for any qualified foreign taxes in a year, you must take the credit for all qualified foreign taxes paid or accrued in that year. You cannot deduct any of them. Conversely, if you choose to deduct qualified foreign taxes, you must deduct all of them. You cannot take a credit for any of them.

See What Foreign Taxes Qualify for the Credit, later, for the meaning of qualified foreign taxes.

There are exceptions to this general rule, which are described next.

Exception for taxes that relate to a prior year in which you deducted foreign income taxes. If you are an accrual basis taxpayer (or you elected to claim your foreign tax credit on an accrual basis, see Credit for Taxes Paid or Accrued, later) that has chosen to claim a credit for foreign taxes this year, and you paid additional qualified foreign tax this year that relates to a prior year in which you chose to deduct foreign taxes, then you may claim a deduction for the additional tax paid (you may not claim a credit for such taxes). See Regulations section 1.901-1(c)(3).

Exceptions for foreign taxes not allowed as a credit. Even if you claim a credit for other foreign taxes, you can deduct any

foreign tax that is not allowed as a credit if you did any of the following.

- You paid the tax to a country for which a credit is not allowed because it provides support for acts of international terrorism, or because the United States does not have or does not conduct diplomatic relations with it or recognize its government and that government is not otherwise eligible to purchase defense articles or services under the Arms Export Control Act.
- You paid withholding tax on dividends from foreign corporations whose stock you did not hold for the required period of time.
- You paid withholding tax on income or gain (other than dividends) from property you did not hold for the required period of time.

- You paid withholding tax on income or gain to the extent you had to make related payments on positions in substantially similar or related property.
- You participated in or cooperated with an international boycott.
- You paid taxes in connection with the purchase or sale of oil or gas.
- You paid or accrued taxes on income or gain 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 Internal Revenue Code section 901(m) and the regulations under that section, including Treasury Decision 9895, 2020-15 I.R.B. 565, available at [IRS.gov/irb/2020-15_IRB#TD-9895](https://www.irs.gov/irb/2020-15_IRB#TD-9895).

For more information on these items, see *Taxes for Which You Can Only Take an Itemized Deduction*, later, under *Foreign Taxes for Which You Cannot Take a Credit*.

Foreign taxes that are not income taxes.

In most cases, only foreign income taxes qualify for the foreign tax credit. Other taxes, such as foreign real and personal property taxes, do not qualify. But you may be able to deduct these other taxes even if you claim the foreign tax credit for foreign income taxes if they are expenses incurred in a trade or business or in the production of income.



Final foreign tax credit regulations issued on January 4, 2022, revised the creditability requirements under Regulations sections 1.901-2 and 1.903-1, applicable for foreign taxes paid or accrued in tax years beginning on or after December 28, 2021. A Notice was subsequently released on July 21, 2023, allowing taxpayers to apply prior rules in place of certain rules provided in

the new 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 9959, 2022-03 I.R.B. 328, available at [IRS.gov/irb/ 2022-03 IRB#TD-9959](https://www.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](https://www.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](https://www.irs.gov/irb/2023-52_IRB#NOT-2023-80).

Carrybacks and carryovers. There is a limit on the credit you can claim in a tax year. If your qualified foreign taxes exceed the credit limit, you may be able to carry over or carry back the excess to another tax year. If you deduct qualified foreign taxes in a tax year, you cannot take a credit for qualified foreign taxes that are carried back or carried over to that tax year from another tax year. That is

because you cannot take both a deduction and a credit for qualified foreign taxes in the same tax year.

For more information on the limit, see *How To Figure the Credit*, later. For more information on carrybacks and carryovers, see *Carryback and Carryover*, later.

Making or Changing Your Choice

You can choose to claim a credit or to change from claiming a deduction to claiming a credit at any time during the period within 10 years from the regular due date for filing the return (without regard to any extension of time to file) for the tax year in which the taxes were actually paid or accrued. You can also choose to claim a deduction or to change from claiming a credit to claiming a deduction at any time during the period within 3 years from the time you filed the return or 2 years from when you paid the tax, whichever is later. This 10-year or 3-year (or 2-year) period may be extended by an agreement.

You make or change your choice on your tax return (or on an amended return) for the year your choice is to be effective.

Example. You paid foreign taxes for the last 13 years and chose to deduct them on your U.S. income tax returns. In February 2023, you file an amended return for tax year 2012, choosing to take a credit for your 2012 foreign taxes because you now realize that the credit is more advantageous than the deduction for that year. This choice is timely because it was made within 10 years of the unextended due date of your tax return for 2012.

Because there is a limit on the credit for your 2012 foreign tax, you have unused 2012 foreign taxes. Ordinarily, you first carry back unused foreign taxes arising in 2012 to, and claim them as a credit in, the preceding tax year. If you are unable to claim all of them in that year, you carry them forward to the 10 years following the year in which they arose.

Because you originally chose to deduct your foreign taxes and the 10-year period for changing the choice for 2011 has passed, you cannot change your choice and carry the unused 2012 foreign taxes back to tax year 2011.

Because the 10-year period for changing the choice has not passed for your 2013 through 2022 income tax returns, you can still choose to claim the credit for those years and carry forward any unused 2012 foreign taxes. However, you must reduce the unused 2012 foreign taxes that you carry forward by the amount that would have been allowed as a carryback if you had timely carried back the foreign tax to tax year 2011.



You cannot take a credit or a deduction for foreign taxes paid on income you exclude under the foreign earned income exclusion or the foreign housing exclusion. See Foreign Earned Income and

Housing Exclusions *under* Foreign Taxes for Which You Cannot Take a Credit, *later*.

Why Choose the Credit?

The foreign tax credit is intended to relieve you of a double tax burden when your foreign source income is taxed by both the United States and the foreign country. In most cases, if the foreign tax rate is higher than the U.S. rate, there will be no U.S. tax on the foreign income. If the foreign tax rate is lower than the U.S. rate, U.S. tax on the foreign income will be limited to the difference between the rates. The foreign tax credit can only reduce U.S. taxes on foreign source income; it cannot reduce U.S. taxes on U.S. source income.

Although no one rule covers all situations, in most cases, it is better to take a credit for qualified foreign taxes than to deduct them as an itemized deduction. The following bullets

explain why the credit may provide a greater tax benefit.

- A credit reduces your actual U.S. income tax on a dollar-for-dollar basis, while a deduction reduces only your income subject to tax.
- You can choose to take the foreign tax credit even if you do not itemize your deductions. You are then allowed the standard deduction in addition to the credit.
- If you choose to take the foreign tax credit, and the taxes paid or accrued exceed the credit limit for the tax year, you may be able to carry over or carry back the excess to another tax year. (See *Limit on the Credit* under *How To Figure the Credit*, later.)

Example 1. For 2023, you and your spouse have adjusted gross income of \$80,300, including \$20,000 of dividend income from

foreign sources. None of the dividends are qualified dividends. You file a joint return. You had to pay \$1,900 in foreign income taxes on the dividend income. If you take the foreign taxes as an itemized deduction, your total itemized deductions are \$15,000. Your taxable income then is \$65,300 and your tax is \$7,399.

If you take the credit instead, your itemized deductions are only \$13,100. Your taxable income then is \$67,200 and your tax before the credit is \$7,627. After the credit, however, your tax is only \$5,727. Therefore, your tax is \$1,672 lower ($\$7,399 - \$5,727$) by taking the credit.

Example 2. In 2023, you receive investment income of \$5,000 from a foreign country, which imposes a tax of \$1,500 on that income. You report on your U.S. return this income as well as \$56,000 of U.S. source wages and an allowable \$40,000 partnership loss from a U.S. partnership. Your share of

the partnership's gross income is \$25,000 and your share of its expenses is \$65,000. You are single and have other itemized deductions of \$15,850. If you deduct the foreign tax on your U.S. return, your taxable income is \$3,650 ($\$5,000 + \$56,000 - \$40,000 - \$1,500 - \$15,850$) and your tax is \$368.

If you take the credit instead, your taxable income is \$5,150 ($\$5,000 + \$56,000 - \$40,000 - \$15,850$) and your tax before the credit is \$518. You can take a credit of only \$410 because of limits discussed in *Limit on the Credit*, later. Your tax after the credit is \$108 ($\$518 - \410), which is \$260 ($\$368 - \108) less than if you deduct the foreign tax.

If you choose the credit, you will have unused foreign taxes of \$1,090 ($\$1,500 - \410).

When deciding whether to take the credit or the deduction, you should also consider whether you can benefit from a carryback or carryover of that unused foreign tax.

Credit for Taxes Paid or Accrued

You can claim the credit for a qualified foreign tax in the tax year in which you pay it or accrue it, depending on your method of accounting. "Tax year" refers to the tax year for which your U.S. return is filed, not the tax year for which your foreign return is filed.

Accrual method of accounting. If you use an accrual method of accounting, you can claim the credit only in the year in which you accrue the tax. You are using an accrual method of accounting if you report income when you earn it, rather than when you receive it, and you deduct your expenses when you incur them, rather than when you pay them.

In most cases, foreign taxes accrue when all the events have taken place that fix the amount of the tax and your liability to pay it. Generally, this occurs on the last day of the foreign tax year for which your foreign return is filed.

You may have to post a bond. If you claim a credit for taxes accrued but not paid, you may have to post an income tax bond to guarantee your payment of any tax due in the event the amount of foreign tax paid differs from the amount claimed.

The IRS can request this bond at any time without regard to the time limit on tax assessment, discussed later under *Carryback and Carryover*.

Cash method of accounting. If you use the cash method of accounting, you can claim the credit only in the year in which you pay the tax. You are using the cash method of accounting if you report income in the year you actually or constructively receive it, and deduct expenses in the year you pay them. You can choose to take the credit in the year you accrue it. See *Choosing to take credit in the year taxes accrue* next.

Choosing to take credit in the year taxes accrue. Even if you use the cash method of accounting, you can choose to take a credit for foreign taxes in the year they accrue. You make the choice by checking the “Accrued” box in Part II of Form 1116 on a timely filed original return. You cannot make this choice on an amended return. Once you make that choice, you must follow it in all later years and take a credit for foreign taxes in the year they accrue.

In addition, the choice to take the credit when foreign taxes accrue applies to all foreign taxes qualifying for the credit. You cannot take a credit for some foreign taxes when paid and take a credit for others when accrued.

If you make the choice to take the credit when foreign taxes accrue and pay them in a later year, you cannot claim a deduction for any part of the previously accrued taxes.

Credit based on taxes paid in earlier year. If, in earlier years, you took the credit based on taxes paid, and this year you choose to take the credit based on taxes accrued, you may be able to take the credit this year for taxes from more than 1 year. See Regulations section 1.905-1(e)(3).

Example. Last year, you took the credit based on taxes paid. This year, you chose to take the credit based on taxes accrued. During the year, you paid foreign income taxes owed for last year. You also accrued foreign income taxes for this year that you did not pay by the end of the year. You can base the credit on your return for this year on both last year's taxes that you paid and this year's taxes that you accrued.

Contesting your foreign tax liability. In general, you cannot 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 cannot claim a credit for any portion of a tax liability you are contesting, even if you paid any portion of the liability to the foreign country. You can claim a credit once the contest is resolved and your foreign tax liability is 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 may elect to claim a provisional credit for contested taxes, as discussed later.

If you chose to take the credit in the year the foreign taxes accrue, you cannot claim a credit for any portion of a tax liability you are contesting, even if you paid any portion of the liability to the foreign country. You can claim a credit once the contest is resolved and your foreign tax liability is determined and paid. The tax is considered to accrue in the foreign tax year to which the contested 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 take a provisional credit for any portion of a contested foreign income tax liability that you have paid to the foreign country in the year that you pay the tax. 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 take a credit for any portion of a contested foreign income tax liability that you have paid to the foreign country in the relation-back year. To make the election, you must file Form 7204 with your return. 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). If you receive from

the foreign country a refund of any portion of the tax liability you contested and paid, you may have to adjust your credit, as discussed later under *Foreign Tax Redetermination*.

Foreign Currency and Exchange Rates

U.S. income tax is imposed on income expressed in U.S. dollars, while in most cases, the foreign tax is imposed on income expressed in foreign currency. Therefore, fluctuations in the value of the foreign currency relative to the U.S. dollar may affect the foreign tax credit.

Translating foreign currency into U.S. dollars. If you receive all or part of your income or pay some or all of your expenses in foreign currency, you must translate the foreign currency into U.S. dollars. How and when you do this depends on your functional currency. In most cases, your functional currency is the U.S. dollar unless you are required to use the currency of a foreign country.

You must make all federal income tax determinations in your functional currency. The U.S. dollar is the functional currency for all taxpayers except some qualified business units (QBUs). A QBU is a separate and clearly identified unit of a trade or business that maintains separate books and records. Unless you are self-employed, your functional currency is the U.S. dollar.

Even if you are self-employed and have a QBU, your functional currency is the U.S. dollar if any of the following apply.

- You conduct the business primarily in dollars.
- The principal place of business is located in the United States.
- You choose to or are required to use the dollar as your functional currency.
- The business books and records are not kept in the currency of the economic

environment in which a significant part of the business activities is conducted.

If your functional currency is the U.S. dollar, you must immediately translate into dollars all items of income, expense, etc., that you receive, pay, or accrue in a foreign currency and that will affect computation of your income tax. If there is more than one exchange rate, use the one that most properly reflects your income. In most cases, you can get exchange rates from banks and U.S. embassies.

If your functional currency is not the U.S. dollar, make all income tax determinations in your functional currency. At the end of the year, translate the results, such as income or loss, into U.S. dollars to report on your income tax return.



For more information, write to:

Internal Revenue Service

International Section

Philadelphia, PA 19255-0725

Rate of exchange for foreign taxes paid.

Use the rate of exchange in effect on the date you paid the foreign taxes to the foreign country unless you meet the exception discussed next. If your tax was withheld in foreign currency, use the rate of exchange in effect for the date on which the tax was withheld. If you make foreign estimated tax payments, you use the rate of exchange in effect for the date on which you made the estimated tax payment.

The exchange rate rules discussed here apply even if the foreign taxes are paid or accrued with respect to a foreign tax credit splitting event (discussed later).

Exception. If you claim the credit for foreign taxes on an accrual basis, in most cases, you must use the average exchange rate for the tax year to which the taxes relate. This rule applies to accrued taxes only under the following conditions.

1. The foreign taxes are paid on or after the first day of the tax year to which they relate.
2. The foreign taxes are paid not later than 24 months after the close of the tax year to which they relate.
3. The foreign tax liability is not denominated in an inflationary currency (defined in the Form 1116 instructions).

For all other foreign taxes, you should use the exchange rate in effect on the date you paid them.

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 may 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. You may make the election for all nonfunctional currency foreign income taxes or only those nonfunctional currency foreign income taxes that are attributable to QBUs with a U.S. dollar functional currency. 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. The statement must identify whether the election is made for all foreign taxes or only for foreign taxes attributable to QBUs with a U.S. dollar functional currency.

Foreign Tax Redetermination

A foreign tax redetermination is a change in your foreign tax liability, and certain other changes that may affect your U.S. income tax liability, including by reason of a change in the amount of your foreign tax credit claimed. See Regulations section 1.905-3(a) for more information.

If a foreign tax redetermination occurs, a redetermination of your U.S. tax liability is required if any of the following conditions apply.

1. The accrued taxes, when paid, differ from the amounts claimed as a credit.
2. The accrued taxes you claimed as a credit in a tax year are not paid within

24 months after the end of that tax year.

If this applies to you, you must reduce the credit previously claimed by the amount of the unpaid taxes. You will not be allowed a credit for the unpaid taxes until you pay them. When you pay the accrued taxes, a new foreign 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 *Rate of exchange for foreign taxes paid*, earlier, under *Foreign Currency and Exchange Rates*.

3. The foreign taxes you paid are refunded in whole or in part.
4. You change your election and claim a 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 fluctuations and is less than the smaller of:

- a. \$10,000,
- 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.

Generally, you must take into account foreign tax redeterminations in the tax year to which the tax relates.

Note. If you use the cash method of accounting and choose to take credits for taxes in the year they are paid (see *Credit for Taxes Paid or Accrued*, earlier), and you pay additional foreign income taxes that relate to a prior tax year, that is not a foreign tax redetermination. You report those additional

foreign income taxes in the tax year in which you paid the additional taxes.

Notice to the IRS of Redetermination

Change in U.S. tax liability. 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. 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. See *Contents of statement*, later. In some cases, you may not have to file Form 1040-X or attach 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 in the current year that relate to prior tax years. You must file Schedule C (Form 1116) for each applicable separate category of income.

No change in U.S. tax liability. If a foreign tax redetermination doesn't change the amount of U.S. tax due for any tax year including in instances where the additional U.S. tax due by reason of the redetermination is eliminated by a carryback or carryover of an unused foreign tax, 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.

You are not required to attach Form 1116 for a tax year affected by a redetermination if you meet both of the following criteria.

1. The amount of your creditable taxes paid or accrued during the tax year is not more than \$300 (\$600 if married filing a joint return) as a result of the foreign tax redetermination.
2. You meet the requirements listed under Exemption from foreign tax credit limit under *How To Figure the Credit*, later.

There are other exceptions to this requirement. They are discussed later under Due date of notification to IRS.

Contents of statement. The statement must include all of the following.

- Your name, address, and taxpayer identification number.
- The tax year or years that are affected by the foreign tax redetermination.
- The date or dates the foreign taxes were accrued, if applicable.
- The date or dates the foreign taxes were paid.
- The amount of foreign taxes paid or accrued on each date (in foreign currency) and the exchange rate used to translate each amount.
- Information sufficient to determine any interest due from or owing to you, including the amount of any interest paid to you by the foreign government, and the dates received.

In the case of any foreign taxes that were not paid before the date 24 months after the close of the tax year to which those taxes relate, you must provide the amount of those taxes in foreign currency and the exchange rate that was used to translate that amount when originally claimed as a credit.

If any foreign tax was refunded in whole or in part, you must provide the date and amount (in foreign currency) of each refund, the exchange rate that was used to translate each amount when originally claimed as a credit, and the exchange rate for the date the refund was received (for purposes of figuring foreign currency gain or loss under Internal Revenue Code section 988).

Due date of notification to IRS. If you pay less foreign tax than you originally claimed a credit for, in most cases, you must file a notification by the due date (with extensions) of your original return for your tax year in which the foreign tax redetermination

occurred. There is no limit on the time the IRS has to redetermine and assess the correct U.S. tax due. If you pay more foreign tax than you originally claimed a credit for, you have 10 years to file a claim for refund of U.S. taxes. See *Time Limit on Refund Claims*, later.

Exceptions to this due date are explained in the next two paragraphs.

Multiple redeterminations of U.S. tax liability for same tax year. Where more than one foreign tax redetermination requires a redetermination of U.S. tax liability for the same tax year and those redeterminations occur in the same tax year or within 2 consecutive tax years, you can file for that tax year one notification (Form 1040-X with a Form 1116 and the required statement) that reflects all those tax redeterminations. If you choose to file one notification for multiple redeterminations which, taken together, increase your U.S. tax liability for the tax

year, the due date for that notification is the due date (with extensions) for the year in which the first foreign tax redetermination that increased your U.S. tax liability occurred. On the other hand, if multiple redeterminations, taken together, decrease your U.S. tax liability for the tax year, the due date for that notification is the applicable due date for filing a claim for credit or refund for an overpayment of U.S. tax. However, foreign tax redeterminations with respect to the tax year for which a redetermination of U.S. tax liability is required may occur after the due date for providing that notification. In this situation, you may have to file more than one Form 1040-X for that tax year.

Additional U.S. tax due eliminated by foreign tax credit carryback or carryover.

If a foreign tax redetermination requires a redetermination of U.S. tax liability that would otherwise result in an additional amount of U.S. tax due, but the additional tax

is eliminated by a carryback or carryover of an unused foreign tax, you do not have to amend your tax return for the year affected by the redetermination. Instead, you can notify the IRS by attaching Schedule C (Form 1116) to the original return for the tax year in which the foreign tax redetermination occurred.

Failure-to-notify penalty. If you fail to notify the IRS of a foreign tax redetermination and cannot show reasonable cause for the failure, you may have to pay a penalty.

For each month, or part of a month, that the failure continues, you pay a penalty of 5% of the tax due resulting from a redetermination of your U.S. tax. This penalty cannot be more than 25% of the tax due.

Foreign tax refund. If you receive a foreign tax refund without interest from the foreign government, you will not have to pay interest on the amount of tax due resulting from the

adjustment to your U.S. tax for the time before the date of the refund.

However, if you receive a foreign tax refund with interest, you must pay interest to the IRS up to the amount of the interest paid to you by the foreign government. The interest you must pay cannot be more than the interest you would have had to pay on taxes that were unpaid for any other reason for the same period. Interest is also owed from the time you receive a refund until you pay the additional tax due.

Foreign tax imposed on foreign refund. If your foreign tax refund is taxed by the foreign country, you cannot take a separate credit or deduction for this additional foreign tax. However, when you refigure the foreign tax credit taken for the original foreign tax, reduce the amount of the refund by the foreign tax paid on the refund.

Example. You paid a foreign income tax of \$3,000 in 2021, and received a foreign tax refund of \$500 in 2023 on which a foreign tax of \$100 was imposed. When you refigure your credit for 2021, you must reduce the \$3,000 you paid by \$400.

Time Limit on Refund Claims

You have 10 years to file a claim for refund of U.S. tax if you find that you paid or accrued a larger foreign tax than you claimed a credit for. The 10-year period begins the day after the regular due date for filing the return (without extensions) for the year in which the taxes were actually paid or accrued.

You have 10 years to file your claim regardless of whether you claim the credit for taxes paid or taxes accrued. The 10-year period applies to claims for refund or credit based on:

1. Fixing math errors in figuring qualified foreign taxes,

2. Reporting qualified foreign taxes not originally reported on the return, or
3. Any other change in the size of the credit (including one caused by correcting the foreign tax credit limit).

The special 10-year period also applies to claiming a credit or to changing from claiming a deduction to claiming a credit for foreign taxes. See *Making or Changing Your Choice*, earlier, under *Choosing To Take Credit or Deduction*.

Who Can Take the Credit?

U.S. citizens, resident aliens, and nonresident aliens who paid foreign income tax and are subject to U.S. tax on foreign source income may be able to take a foreign tax credit.

U.S. Citizens

If you are a U.S. citizen, you are taxed by the United States on your worldwide income wherever you live. You are normally entitled

to take a credit for foreign taxes you pay or accrue.

Resident Aliens

If you are a resident alien of the United States, you can take a credit for foreign taxes subject to the same general rules as U.S. citizens. If you are a bona fide resident of Puerto Rico for the entire tax year, you also fall under the same rules.

Usually, you can take a credit only for those foreign taxes imposed on income you actually or constructively received while you had resident alien status.

For information on alien status, see Pub. 519, U.S. Tax Guide for Aliens.

Nonresident Aliens

If you are a nonresident alien, you cannot take the credit in most cases. However, you may be able to take the credit if you meet either of the following conditions.

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

For information on alien status and effectively connected income, see Pub. 519.

What Foreign Taxes Qualify for the Credit?

In most cases, the following four tests must be met for any foreign tax to qualify for the credit.

1. The tax must be imposed on you.

2. You must have paid or accrued the tax.
3. The tax must be the legal and actual foreign tax liability.
4. The tax must be an income tax (or a tax in lieu of an income tax).



Certain foreign taxes do not qualify for the credit even if the four tests are met. See Foreign Taxes for Which You Cannot Take a Credit, later.

Tax Must Be Imposed on You

You can claim a credit only for foreign taxes that are imposed on you by a foreign country or U.S. possession. For example, a tax that is deducted from your wages is considered to be imposed on you. You cannot shift the right to claim the credit by contract or other means.

Foreign country. A foreign country includes any foreign state and its political subdivisions. Income, war profits, and excess profits taxes

paid or accrued to a foreign city or province qualify for the foreign tax credit.

U.S. possessions. For foreign tax credit purposes, all qualified taxes paid to U.S. possessions are considered foreign taxes. For this purpose, U.S. possessions include Puerto Rico, the U.S. Virgin Islands, Guam, the Northern Mariana Islands, and American Samoa.

When the term “foreign country” is used in this publication, it includes U.S. possessions unless otherwise stated.

You Must Have Paid or Accrued the Tax

In most cases, you can claim the credit only if you paid or accrued the foreign tax to a foreign country or U.S. possession. However, the paragraphs that follow describe some instances in which you can claim the credit even if you did not directly pay or accrue the tax yourself.

Joint return. If you file a joint return, you can claim the credit based on the total foreign income taxes paid or accrued by you and your spouse.

Combined income. If foreign tax is imposed on the combined income of two or more persons (for example, spouses), the tax is allocated among, and considered paid by, these persons on a pro rata basis in proportion to each person's portion of the combined income, as determined under foreign law and Regulations section 1.901-2(f)(3) (iii). Combined income with respect to each foreign tax that is imposed on a combined basis (and combined income subject to tax exemption or preferential tax rates) is figured separately, and the tax on that combined income is allocated separately.

Example. You and your spouse reside in Country X, which imposes income tax on your combined incomes. Both of you use the “u” as your functional currency. Country X

apportions tax based on income. You had income of 30,000u and your spouse had income of 20,000u. Your filing status on your U.S. income tax return is married filing separately. You can claim only 60% ($30,000u/50,000u$) of the foreign taxes imposed on your income on your U.S income tax return. Your spouse can claim only 40% ($20,000u/50,000u$).

Partner or S corporation shareholder. If you are a partner in a partnership, or a shareholder in an S corporation, you can claim the credit based on your proportionate share of the foreign income taxes paid or accrued by the partnership or the S corporation. These amounts will be shown on the Schedule K-3 you receive from the partnership or S corporation. However, if you are a partner in a partnership or a shareholder in an S corporation that in turn owns stock in a foreign corporation, you cannot claim a credit for your share of foreign

taxes paid by the foreign corporation unless you make a section 962 election, discussed later under Controlled foreign corporation (CFC) shareholder.

Beneficiary. If you are a beneficiary of an estate or trust, you may be able to claim the credit based on your proportionate share of foreign income taxes paid or accrued by the estate or trust. This amount will be shown on the Schedule K-1 you receive from the estate or trust. However, you must show that the tax was imposed on income of the estate and not on income received by the decedent.

Mutual fund shareholder. If you are a shareholder of a mutual fund or other regulated investment company (RIC), you may be able to claim the credit based on your share of foreign income taxes paid by the fund if it chooses to pass the credit on to its shareholders. You should receive from the mutual fund or other RIC a Form 1099-DIV, or similar statement, showing your share of

the foreign income and your share of the foreign taxes paid. If you do not receive this information, you will need to contact the fund.

Controlled foreign corporation (CFC) shareholder. If you are a shareholder of a CFC and elect under section 962 to be taxed at corporate rates on your section 951(a) amount (which is generally your share of subpart F income and your section 956 amount with respect to investment of earnings in U.S. property), and your global intangible low-taxed income (GILTI) inclusion for the tax year, you may be able to claim a credit for certain foreign taxes paid or accrued by the CFC, but only against your separately computed U.S. tax liability with respect to your section 951(a) amount and GILTI inclusion. To claim the credit, you must file Forms 1118, as applicable, and you must also include the statement required under

Regulations section 1.962-2 to make the section 962 election.

You should include the following information for the tax year in your statement.

- Your section 951(a) amount broken out between subpart F income and section 956 amount.
- Your GILTI inclusion.
- The amount of your deduction under section 250 with respect to your GILTI inclusion (your section 250 deduction).
- The amount of the foreign tax credit taken on your section 951(a) amount broken out between subpart F income and section 956 amount, and your GILTI inclusion.
- The amount of your U.S. tax liability with respect to amounts subject to section 962.

See Internal Revenue Code sections 951(a), 951A, 960, and 962 and Regulations section 1.962-2 for more information.



If you are a shareholder in a CFC who has made a section 962 election and you figured a foreign tax credit, see the instructions for Form 1040 or 1040-SR, line 16.

Controlled foreign corporation (CFC). A CFC is a foreign corporation in which U.S. shareholders directly, indirectly, or constructively own more than 50% of the voting power or value of the stock. You are considered a U.S. shareholder if you own, directly, indirectly, or constructively, 10% or more of the total voting power or value of all classes of the foreign corporation's stock. For tax years beginning after 2017, the definition of U.S. shareholder is expanded to include U.S. persons who own 10% or more of the total value of shares of all classes of stock of such foreign corporation. See Internal Revenue Code sections 951(b) and 958(b) for more information.

Tax Must Be the Legal and Actual Foreign Tax Liability

The amount of foreign tax that qualifies is not necessarily the amount of tax withheld by the foreign country. Only the legal and actual foreign tax liability that you paid or accrued during the year qualifies for the credit.

Foreign tax refund and credits. You cannot take a foreign tax credit for income taxes paid to a foreign country if it is reasonably certain the amount would be refunded, credited, rebated, abated, or forgiven if you made a claim.

For example, the United States has tax treaties with many countries allowing U.S. citizens and residents reductions in the rates of tax of those foreign countries. However, some treaty countries require U.S. citizens and residents to pay the tax figured without regard to the lower treaty rates and then claim a refund for the amount by which the tax actually paid is more than the amount of

tax figured using the lower treaty rate. The qualified foreign tax is the amount figured using the lower treaty rate and not the amount actually paid, because the excess tax is refundable.

You cannot take a credit for taxes paid to a foreign country that are reduced or offset 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).

Subsidy received. Tax payments a foreign country returns to you in the form of a subsidy do not qualify for the foreign tax credit. This rule applies even if the subsidy is given to a person related to you, or persons who participated with you in a transaction or a related transaction. A subsidy can be provided by any means but must be determined, directly or indirectly, in relation to the amount of tax, or to the base used to figure the tax.

The term “subsidy” includes any type of benefit. Some ways of providing a subsidy are refunds, credits, deductions, payments, or discharges of obligations.

Shareholder receiving refund for corporate tax in integrated system. Under some foreign tax laws and treaties, a shareholder is considered to have paid part of the tax that is imposed on the corporation. You may be able to claim a refund of these taxes from the foreign government. You must

include the refund (including any amount withheld) in your income in the year received. Any tax withheld from the refund is a qualified foreign tax.

Example. You are a shareholder of a French corporation. You receive a \$100 refund of the tax paid to France by the corporation on the earnings distributed to you as a dividend. The French government imposes a 15% withholding tax (\$15) on the refund you received. You receive a check for \$85. You include \$100 in your income. The \$15 of tax withheld is a qualified foreign tax.

Tax Must Be an Income Tax (or Tax in Lieu of Income Tax)

In most cases, only income, war profits, and excess profits taxes (income taxes) qualify for the foreign tax credit. Furthermore, foreign taxes on income can qualify even though they are not imposed under an income tax law if the tax is in lieu of an income, war profits, or

excess profits tax. See Taxes in Lieu of Income Taxes, later.

Simply because the levy is called an income tax by the foreign taxing authority does not make it an income tax for this purpose. A foreign levy is a foreign income tax only if it meets both of the following requirements.

1. It is a tax; that is, you have to pay it and you get no specific economic benefit (discussed below) from paying it.
2. Either (a) the foreign tax is a net income tax that meets the requirements of Regulations section 1.901-2(b), or (b) the foreign tax is a tax in lieu of an income tax that meets the requirements of Regulations section 1.903-1.

Specific economic benefit. In most cases, you get a specific economic benefit if you receive, or are considered to receive, an

economic benefit from the foreign country imposing the levy, and:

1. If there is a generally imposed income tax, the economic benefit is not available on substantially the same terms to all persons subject to the income tax; or
2. If there is no generally imposed income tax, the economic benefit is not available on substantially the same terms to the population of the foreign country in general.

You are considered to receive a specific economic benefit if you have a business transaction with a person who receives a specific economic benefit from the foreign country and, under the terms and conditions of the transaction, you receive, directly or indirectly, all or part of the benefit.

However, see the exception discussed later under *Pension, unemployment, and disability fund payments.*

Economic benefits. Economic benefits include the following.

- Goods.
- Services.
- Fees or other payments.
- Rights to use, acquire, or extract resources, patents, or other property the foreign country owns or controls.
- Discharges of contractual obligations.

In most cases, the right or privilege merely to engage in business is not an economic benefit.

Dual-capacity taxpayers. If you are subject to a foreign country's levy and you also receive a specific economic benefit from that foreign country, you are a “dual-capacity

taxpayer.” As a dual-capacity taxpayer, you cannot claim a credit for any part of the foreign levy, unless you establish that the amount paid under a distinct element of the foreign levy is a tax, rather than a compulsory payment for a direct or indirect specific economic benefit.



For more information on how to establish amounts paid under separate elements of a levy, write to:

Internal Revenue Service
International Section
Philadelphia, PA 19255-0725

Pension, unemployment, and disability fund payments. A foreign tax imposed on an individual to pay for retirement, old-age, death, survivor, unemployment, illness, or disability benefits, or for substantially similar purposes, is not payment for a specific economic benefit if the amount of the tax does not depend on the age, life expectancy, or similar characteristics of that individual.

No deduction or credit is allowed, however, for social security taxes paid or accrued to a foreign country with which the United States has a social security agreement. For more information about these agreements, see Pub. 54.

Net income tax. A foreign tax is a net income tax if it is imposed on realized gross receipts reduced by costs and expenses related to those gross receipts. In addition, the foreign tax must meet the attribution requirement, described next. In order for the foreign tax to be a net income tax, the foreign tax must generally allow for deduction of significant costs and expenses, including capital expenditures, interest, rents, royalties, wages or other payments for services, and research and experimentation. However, the foreign tax does not need to allow deductions for costs and expenses attributable to wage income or to investment income that is not derived from a trade or business. For more

information, see Regulations section 1.901-2(b) (4).

Attribution requirement. A foreign tax must meet the attribution requirement in Regulations section 1.901-2(b) (5). For a tax that is imposed on nonresidents of a country, the foreign tax must meet one of the following three requirements:

1. Activities nexus: The base of the foreign tax must be determined based on gross receipts and costs that are attributable to the activities (without using the location of customers as a criterion) of the nonresident.
2. Source-based nexus: For a tax that is imposed on the basis of source, the foreign country's source rules must be reasonably similar to U.S. source rules.
3. Property situs nexus: For a tax imposed on gain from the sale or

disposition of property, the base of the tax only includes gains from the sale or disposition of real property located in the foreign country (or interest in a resident entity that owns real property) or gain from the sale or disposition of interest in a passthrough entity that's attributable to business property forming part of a taxable presence in the foreign country.

For a tax that is imposed on residents of the foreign country, the rules for allocating income, deduction, and losses between related parties must be consistent with arm's-length principles.



Notice 2023-55, issued on July 21, 2023, provides temporary relief in determining whether a foreign tax meets the definition of a foreign income tax under section 901 for the 2022 and 2023 tax years (the relief period). For foreign taxes paid or accrued during any tax year within the

relief period, taxpayers may apply former sections 1.901-2(a) and (b), before it was amended by Treasury Decision 9959, subject to a modification to the nonconfiscatory gross basis tax rule as described in the Notice. Those former regulations do not include the attribution requirement described above. 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 9959, 2022-03 I.R.B. 328, available at [IRS.gov/irb/2022-03_IRB#TD-9959](https://www.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](https://www.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](https://www.irs.gov/irb/2023-52_IRB#NOT-2023-80).

Soak-up taxes. An amount paid to a foreign country is not an amount of foreign income tax paid and does not qualify for the foreign tax credit to the extent it is a soak-up tax. A tax is a soak-up tax to the extent that liability for it depends on the availability of a credit for it against income tax imposed by another country. This rule applies only if and to the extent that the foreign tax would not be imposed if the credit were not available.

Penalties and interest. Amounts paid to a foreign government to satisfy a liability for interest, fines, penalties, or any similar obligation are not taxes and do not qualify for the credit.

Taxes not based on income. Foreign taxes based on gross receipts or the number of units produced, rather than on realized net income, do not qualify unless they are imposed in lieu of an income tax, as discussed next. Taxes based on assets, such

as property taxes, do not qualify for the credit.

Taxes in Lieu of Income Taxes

A tax paid or accrued to a foreign country qualifies for the credit if it is imposed in lieu of an income tax otherwise generally imposed. A foreign levy is a tax in lieu of an income tax only if it meets both of the following requirements.

- It is not payment for a specific economic benefit, as discussed earlier.
- The tax meets the attribution requirement and is imposed in place of, and not in addition to, a generally imposed net income tax.

A tax in lieu of an income tax does not have to be based on realized net income. A foreign tax imposed on gross income, gross receipts or sales, or the number of units produced or exported can qualify for the credit. However, the tax must meet the attribution

requirement, described earlier. That means that a withholding tax imposed on gross interest, dividends, royalties, or other gross income of a nonresident is only creditable if the foreign country's source rule for those items of income is reasonably similar to U.S. source rules.

In most cases, soak-up taxes (discussed earlier) do not qualify as a tax in lieu of an income tax. However, if the foreign country imposes a soak-up tax in lieu of an income tax, the amount that does not qualify for foreign tax credit is the lesser of the following amounts.

- The soak-up tax.
- The foreign tax you paid that is more than the amount you would have paid if you had been subject to the generally imposed income tax.

Foreign Taxes for Which You Cannot Take a Credit

This part discusses the foreign taxes for which you cannot take a credit. These are:

- Taxes on excluded income,
- Taxes for which you can only take an itemized deduction,
- Taxes on foreign mineral income,
- Taxes from international boycott operations,
- A portion of taxes on combined foreign oil and gas income,
- Taxes of U.S. persons controlling foreign corporations and partnerships who fail to file required information returns,
- Taxes related to a foreign tax splitting event, and
- Foreign taxes disallowed under section 965(g) and Regulations section 1.965-5.

Taxes on Excluded Income

You cannot take a credit for foreign taxes paid or accrued on certain income that is excluded from U.S. gross income.

Foreign Earned Income and Housing Exclusions

You must reduce your foreign taxes available for the credit by the amount of those taxes paid or accrued on income that is excluded from U.S. income under the foreign earned income exclusion or the foreign housing exclusion. See Pub. 54 for more information on the foreign earned income and housing exclusions.

Wages completely excluded. If your wages are completely excluded, you cannot take a credit for any of the foreign taxes paid or accrued on these wages.

Wages partly excluded. If only part of your wages is excluded, you cannot take a credit for the foreign income taxes allocable to the

excluded part. You find the amount allocable to your excluded wages by multiplying the foreign tax paid or accrued on foreign earned income received or accrued during the tax year by a fraction.

The numerator of the fraction is your foreign earned income and housing amounts excluded under the foreign earned income and housing exclusions for the tax year minus otherwise deductible expenses definitely related and properly apportioned to that income. Deductible expenses do not include the foreign housing deduction.

The denominator is your total foreign earned income received or accrued during the tax year minus all deductible expenses allocable to that income (including the foreign housing deduction). If the foreign law taxes foreign earned income and some other income (for example, earned income from U.S. sources or a type of income not subject to U.S. tax), and the taxes on the other income cannot be

segregated, the denominator of the fraction is the total amount of income subject to the foreign tax minus deductible expenses allocable to that income.

Example. You are a U.S. citizen and a cash basis taxpayer, employed by Company X and living in Country A. Your records show the following.

Foreign earned income received . . .	\$125,000
Unreimbursed business travel expenses	20,000
Income tax paid to Country A	30,000
Exclusion of foreign earned income and housing allowance	120,000

Because you can exclude part of your wages, you cannot claim a credit for part of the foreign taxes. To find that part, do the following.

First, find the amount of business expenses allocable to excluded wages and therefore not deductible. To do this, multiply the otherwise deductible expenses by a fraction. That fraction is the excluded wages over your foreign earned income.

$$\$20,000 \times \frac{\$120,000}{\$125,000} = \$19,200$$

Next, find the numerator of the fraction by which you will multiply the foreign taxes paid. To do this, subtract business expenses allocable to excluded wages (\$19,200) from excluded wages (\$120,000). The result is \$100,800.

Then, find the denominator of the fraction by subtracting all your deductible expenses from all your foreign earned income (\$125,000 – \$20,000 = \$105,000).

Finally, multiply the foreign tax you paid by the resulting fraction.

$$\$30,000 \times \frac{\$100,800}{\$105,000} = \$28,800$$

The amount of Country A tax you cannot take a credit for is \$28,800.

Taxes on Income From Puerto Rico Exempt From U.S. Tax

If you have income from Puerto Rican sources that is not taxable, you must reduce your foreign taxes paid or accrued by the taxes allocable to the exempt income. For information on figuring the reduction, see Pub. 570.

Possession Exclusion

If you are a bona fide resident of American Samoa and exclude income from sources in American Samoa, you cannot take a credit for the taxes you pay or accrue on the excluded income. For more information on this exclusion, see Pub. 570.

Extraterritorial Income Exclusion

You cannot take a credit for taxes you pay on qualifying foreign trade income excluded on Form 8873. However, see Internal Revenue Code section 943(d) for an exception for certain withholding taxes.

Taxes for Which You Can Only Take an Itemized Deduction

You cannot claim a foreign tax credit for foreign income taxes paid or accrued under the following circumstances. However, you can claim an itemized deduction for these taxes. See *Choosing To Take Credit or Deduction*, earlier.

Taxes Imposed by Sanctioned Countries (Section 901(j) Income)

You cannot claim a foreign tax credit for income taxes paid or accrued to any country if the income giving rise to the tax is for a period (the sanction period) during which:

- The Secretary of State has designated the country as one that repeatedly provides support for acts of international terrorism;
- The United States has severed or does not conduct diplomatic relations with the country; or
- The United States does not recognize the country's government, and that government is not otherwise eligible to purchase defense articles or services under the Arms Export Control Act.

The following countries meet this description for 2023. Income taxes paid or accrued to these countries in 2023 do not qualify for the credit.

- Iran.
- Libya (but see Note, later).
- North Korea.
- Sudan.

- Syria.

Waiver of denial of the credit. A waiver can be granted to a sanctioned country if the President of the United States determines that granting 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. The President must report to Congress, not less than 30 days before the date on which the waiver is granted, the intention to grant the waiver and the reason for the waiver.

Note. Effective December 10, 2004, the President granted a waiver to Libya. Income taxes arising on or after this date qualify for the credit if they meet the other requirements in this publication.

Limit on credit. In figuring the foreign tax credit limit, discussed later, income from a sanctioned country is a separate category of foreign income unless a Presidential waiver is granted. You must fill out a separate Form

1116 for this income and check box **e** at the top of the form. Because no credit is allowed for taxes paid to sanctioned countries, you would generally complete Form 1116 for this category only through line 17.

Example. You lived and worked in Iran until August, when you were transferred to Italy. You paid taxes to each country on the income earned in that country. You cannot claim a foreign tax credit for the foreign taxes paid on the income earned in Iran. Because the income earned in Iran is a separate category of foreign income, you must fill out a separate Form 1116 for that income. You cannot take a credit for taxes paid on the income earned in Iran, but that income is taxable by the United States.

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 nonsanctioned 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.

Figuring the credit when a sanction ends.

Table 1 lists the countries for which sanctions have ended or for which a Presidential waiver has been granted. For any of these countries, you can claim a foreign tax credit for the taxes paid or accrued to that country on the income for the period that begins after the end of the sanction period or the date the Presidential waiver was granted.

Example. The sanctions against Country X ended on July 31. On August 19, you receive a distribution from a mutual fund of Country X income. The fund paid Country X income tax for you on the distribution. Because the distribution was made after the sanction

ended, you may include the foreign tax paid on the distribution to figure your foreign tax credit.

Amounts for the nonsanctioned period. If a sanction period ends (or a Presidential waiver is granted) during your tax year and you are not able to determine the actual income and taxes for that period, you can allocate amounts to that period based on the number of days in the period that fall in your tax year. Multiply the income or taxes for the year by the following fraction to determine the amounts allocable to that period.

$$\frac{\text{Number of nonsanctioned days in year}}{\text{Number of days in year}}$$

Example. You are a calendar year filer and received \$20,000 of income from Country X in 2023 on which you paid tax of \$4,500. Sanctions against Country X ended on July 11, 2023. You are unable to determine how much of the income or tax is for the

nonsanctioned period. Because your tax year starts on January 1, and the Country X sanction ended on July 11, 2023, 173 days of your tax year are in the nonsanctioned period. You would figure the income for the nonsanctioned period as follows.

$$\frac{173}{365} \times \$20,000 = \$9,479$$

You would figure the tax for the nonsanctioned period as follows.

$$\frac{173}{365} \times \$4,500 = \$2,133$$

To figure your foreign tax credit, you would use \$9,479 as the income from Country X and \$2,133 as the tax.

Further information. The rules for figuring the foreign tax credit after a country's sanction period ends are more fully explained in Revenue Ruling 92-62, Cumulative Bulletin 1992-2, page 193. Issues of the Cumulative

Bulletin are available in most IRS offices and you are welcome to read them there.

Taxes Imposed on Certain Dividends

You cannot claim a foreign tax credit for withholding tax (defined later) on dividends paid or accrued if either of the following applies to the dividends.

1. The dividends are on stock you held for less than 16 days during the 31-day period that begins 15 days before the ex-dividend date (defined later).
2. The dividends are for a period or periods totaling more than 366 days on preferred stock you held for less than 46 days during the 91-day period that begins 45 days before the ex-dividend date. If the dividend is not for more than 366 days, rule (1) applies to the preferred stock.
- 3.

When figuring how long you held the stock, count the day you sold it, but do not count the day you acquired it or any days on which you were protected from risk of loss.

Regardless of how long you held the stock, you cannot claim the credit to the extent you have an obligation under a short sale or otherwise to make payments related to the dividend for positions in substantially similar or related property.

Table 1. Countries Removed From the Sanction List or Granted Presidential Waiver

Country	Sanction Period	
	Starting Date	Ending Date
Cuba	January 1, 1987	December 21, 2015

Iraq	February 1, 1991	June 27, 2004
Libya	January 1, 1987	December 9, 2004*
* Presidential waiver granted for qualified income taxes arising after December 9, 2004.		

Withholding tax. For this purpose, withholding tax includes any tax determined on a gross basis. It does not include any tax which is in the nature of a prepayment of a tax imposed on a net basis.

Ex-dividend date. The ex-dividend date is the first date following the declaration of a dividend on which the purchaser of a stock is not entitled to receive the next dividend payment.

Example 1. You bought common stock from a foreign corporation on November 3. You sold the stock on November 19. You received

a dividend on this stock because you owned it on the ex-dividend date of November 5. To claim the credit, you must have held the stock for at least 16 days within the 31-day period that began on October 21 (15 days before the ex-dividend date). Because you held the stock for 16 days, from November 4 until November 19, you are entitled to the credit.

Example 2. The facts are the same as in *Example 1*, except that you sold the stock on November 14. You held the stock for only 11 days. You are not entitled to the credit.

Exception. If you are a securities dealer who actively conducts business in a foreign country, you may be able to claim a foreign tax credit for qualified taxes paid on dividends regardless of how long you held the stock or whether you were obligated to make payments for positions in substantially similar or related property. See section 901(k)(4) of

the Internal Revenue Code for more information.

Taxes Withheld on Income or Gain (Other Than Dividends)

For income or gain (other than dividends) paid or accrued on property, you cannot claim a foreign tax credit for withholding tax (defined later):

- If you have not held the property for at least 16 days during the 31-day period that begins 15 days before the date on which the right to receive the payment arises, or
- To the extent you have to make related payments on positions in substantially similar or related property.

When figuring how long you held the property, count the day you sold it, but do not count the day you acquired it or any days on which you were protected from risk of loss.

Withholding tax. For this purpose, withholding tax includes any tax determined on a gross basis. It does not include any tax which is in the nature of a prepayment of a tax imposed on a net basis.

Exception for dealers. If you are a dealer in property who actively conducts business in a foreign country, you may be able to claim a foreign tax credit for qualified taxes withheld on income or gain from that property regardless of how long you held it or whether you have to make related payments on positions in substantially similar or related property. See section 901(I)(2) of the Internal Revenue Code for more information.

Covered Asset Acquisition

You cannot take a credit for the disqualified portion of any foreign tax paid or accrued in connection with a covered asset acquisition. A covered asset acquisition includes certain acquisitions that result in a stepped-up basis for U.S. tax purposes but not for foreign tax

purposes. For more information, see Internal Revenue Code section 901(m) and the regulations under that section, including Treasury Decision 9895, 2020-15 I.R.B. 565, available at [IRS.gov/irb/2020-15_IRB#TD-9895](https://www.irs.gov/irb/2020-15_IRB#TD-9895).

Taxes in Connection With the Purchase or Sale of Oil or Gas

You cannot claim a foreign tax credit for taxes paid or accrued to a foreign country in connection with the purchase or sale of oil or gas extracted in that country if you do not have an economic interest in the oil or gas, and the purchase price or sales price is different from the fair market value (FMV) of the oil or gas at the time of purchase or sale.

Taxes on Foreign Mineral Income

You must reduce any taxes paid or accrued to a foreign country or possession on mineral income from that country or possession if you were allowed a deduction for percentage

depletion for any part of the mineral income. For details, see Regulations section 1.901-3.

Taxes From International Boycott Operations

If you participate in or cooperate with an international boycott during the tax year, your foreign taxes resulting from boycott activities will reduce the total taxes available for credit. See the instructions for line 12 in the Form 1116 instructions to figure this reduction.

In most cases, this rule does not apply to employees with wages who are working and living in boycotting countries, or to retirees with pensions who are living in these countries.

List of boycotting countries. A list of the countries that may require participation in or cooperation with an international boycott is published by the Department of the Treasury.

As of October 2023, the following countries are listed.

- Iraq.
- Kuwait.
- Lebanon.
- Libya.
- Qatar.
- Saudi Arabia.
- Syria.
- Yemen.

The list is updated quarterly and is available at [FederalRegister.gov](https://www.federalregister.gov). Enter "International Boycott" in the search box.



For information concerning changes to the list, write to:

Internal Revenue Service
International Section
Philadelphia, PA 19255-0725

Determinations of whether the boycott rule applies. You may request a determination from the IRS as to whether a particular operation constitutes participation in or cooperation with an international boycott. The procedures for obtaining a determination from the IRS are outlined in Revenue Procedure 77-9 in Cumulative Bulletin 1977-1. Cumulative Bulletins are available in most IRS offices and you are welcome to read them there.

Public inspection. A determination and any related background file are open to public inspection. However, your identity and certain other information will remain confidential.