Department of the Treasury
Internal Revenue Service

Instructions for Form 1118

Computation of Foreign Tax Credit—Corporations

(Revised January 1977)

(References are to the Internal Revenue Code and regulations thereunder)

General Instructions

This revised form reflects changes made by the Tax Reform Act of 1976 and should only be used for calendar year 1976 and other taxable years ending after December 31, 1976.

A. Corporations Required to File Form 1118.—Form 1118 must be attached to the income tax return of any corporation electing to claim the benefits of a foreign tax credit under Section 901.

The form must be carefully filled in with all the information called for and with the calculation of credits indicated. (Section 1.905–2(a)(2) of the regulations.)

B. Foreign Taxes for which Credit May Be Claimed.—The credit may be claimed for income, war profits, and excess profits taxes paid or accrued during the taxable year to any foreign country or to any U.S. possession, and the taxes deemed to have been paid or accrued under sections 902 and 960. (Section 1.901–1(a)(2) of the regulations.)

The term "foreign country" means any foreign state or political subdivision thereof, or any foreign political entity which levies and collects income, war profits, or excess profits taxes. For purposes of the credit, Puerto Rico is considered a U.S. possession. (Section 1.901–2 of the regulations.)

The term "income, war profits, and excess profits taxes" includes a tax imposed by statute or decree by a foreign country or U.S. possession if: (1) the country or possession has in force a general income tax law; (2) the corporation claiming the credit would, in the absence of a specific provision applicable to the corporation, be subject to the general income tax; and (3) the general income tax is not imposed on the corporation subject to such substituted tax. (Section 1.903–1(a) of the regulations.)

Any income, war profits, and excess profits taxes paid or accrued to any foreign country in connection with the purchase and sale of oil or gas extracted in such country is not to be considered as tax for purposes of sections 275(a) and 901 if: (1) the taxpayer has no economic interest in the oil or gas to which section 611(a) applies; and (2) either such purchase or sale is at a price which differs from the fair market value for such oil or gas at the time of such purchase or sale. (Section 901(f).)

No credit (or deduction) is allowed for any tax paid or accrued to a foreign country or U.S. possession with respect to taxable income taken into account in computing the section 936 credit. (Section 936(c).)

No credit (or deduction) is allowed for any tax paid or accrued to a foreign country or U.S. possession with respect to any distribution from a corporation to the extent the distribution is attributable to periods during which an election under section 936 or section 931 (prior to amendment by the Tax Reform Act of 1976) applied to the corporation. (Section 901(g); see section 1051(i)(2) of the Tax Reform Act of 1976 for a limited exception.)

No credit (or deduction) is allowed for any income, war profits, or excess profits taxes paid or accrued to any foreign country or U.S. possession attributable to income excluded under section 819A(a). (Section 819A(f).)

A credit is not allowed for excess tax payments to a foreign country with which the U.S. has a tax treaty if such excess would be refunded by the foreign country if a tax treaty or overpayment claim were made.

No credit is allowed for amounts representing interest or penalties. (Section 1.901–2(a) of the regulations.)

For reduction in the amount of foreign taxes for which a credit may be claimed, see General Instructions J and O.

C. Corporations Not Allowed Credit.—The credit is not allowed to: (1) a China Trade Act corporation; or (2) a regulated investment company which has exercised the election under section 853. (Sections 942 and 853(b)(1).)

D. Taxes Against which Credit is Allowed.—The foreign tax credit is allowed against income tax imposed by chapter 1 (reduced by the section 936 credit) but not against any: (1) minimum tax for tax preferences imposed by section 56; (2) tax on premature distributions to owner-employees imposed for the taxable year under section 72(m)(5)(B); (3) tax on lump sum distributions imposed by section 402(e); (4) additional tax on income from certain retirement accounts imposed for the taxable year by section 408(f); (5) tax on accumulated earnings imposed by section 531; (6) personal holding company tax imposed by section 541; (7) additional tax imposed for the taxable year under section 1333 (relating to war loss recoveries); (8) additional tax imposed for the taxable year under section 1351 (relating to recoveries of foreign expropriation losses); (9) increase in tax under section 47 (relating to dispositions of investment credit property); (10) increase in tax under section 50A(c) (relating to early termination by an employer in a WIN program); and (11) tax on certain capital gains of electing small business corporations imposed by section 1378.

Foreign corporations may not take the credit against any tax imposed by section 881 on income not effectively connected with the conduct of a trade or business within the U.S.

E. No Deduction if a Credit is Claimed.—If a corporation elects for any taxable year to claim a credit for taxes to any extent, the election will apply to income, war profits, and excess profits taxes paid or accrued in the taxable year to all foreign countries and U.S. possessions and no portion of the tax will be allowed as a deduction in the taxable year or any succeeding taxable year. (Section 1.901–1(c) of the regulations.)

The election for any taxable year may be made or changed at any time before the end of the period prescribed for making a claim for credit or refund of tax for the taxable year. (Section 901(a).)

Members of an affiliated group electing under section 243 to deduct 100% of qualifying dividends received from members of the same affiliated group are treated as one taxpayer for purposes of making the election under section 901(a). (Section 243(b)(3)(B).)

F. When Foreign Tax Credit Can be Taken.—You can take the credit for the year in which the taxes were paid or accrued depending on the method of accounting used. However, if you report on the cash basis, you can elect to claim the credit for accrued taxes. You can make the election by checking the appropriate box in the heading for column 1 of Schedule B. This election must be followed in all subsequent years. (Section 905(a).)

G. Credit for Tax Accrued But Not Paid.—If you claim a credit for tax accrued but not paid, Internal Revenue may require you to furnish a bond on Form 1117 as a condition precedent to the allowance of the credit. (Section 1.905–4 of the regulations.)

H. Proof of Credits.—Payment or accrual of each item of foreign tax for which you claim a credit must be substantiated by attaching to Form 1118 a receipt if the tax is paid, or the foreign tax return on

which the tax is based if the tax is accrued but not paid. If such receipt or return is in a foreign language, a certified translation must also be attached. Internal Revenue may accept secondary evidence of foreign taxes paid or accrued if it can be established to its satisfaction that it is impossible to furnish a receipt, return, or direct evidence of tax withheld. (Section 1.905–2 of the regulations.)

Foreign taxes paid or accrued by a foreign corporation for which a deemed paid credit is claimed under section 902 or 960 must be similarly substantiated. (Sections 1.902–3(a)(6) and 1.960–1(f) of the regulations.)

I. Credit for Taxes of Foreign Corporations Deemed to Have Been Paid.—

(1) Under Section 902.—If a domestic corporation owns 10% or more of the voting stock of a foreign corporation (first-tier foreign corporation) from which it receives a dividend, the domestic corporation is deemed to have paid a proportionate amount of the foreign income, war profits, and excess profits taxes paid, accrued, or deemed paid by the first-tier foreign corporation. (Section 902(a).)

If the first-tier foreign corporation owns 10% or more of the voting stock of a second-tier foreign corporation from which it receives a dividend, and the product of the percentage of voting stock owned by the domestic corporation in the first-tier foreign corporation and the percentage of voting stock owned by the first-tier foreign corporation in the second-tier foreign corporation equals at least 5%, the first-tier foreign corporation is deemed to have paid a proportionate amount of the foreign income, war profits, and excess profits taxes paid, accrued or deemed paid by the second-tier foreign corporation. (Section 902 (b)(1).)

If the second-tier foreign corporation owns 10% or more of the voting stock of a third-tier foreign corporation from which it receives a dividend, and the product of the percentage of voting stock owned by the domestic corporation in the first-tier foreign corporation, the percentage of voting stock owned by the first-tier foreign corporation in the second-tier foreign corporation, and the percentage of voting stock owned by the second-tier foreign corporation in the third-tier foreign corporation equals at least 5%, the second-tier foreign corporation is deemed to have paid a proportionate amount of the foreign income, war profits, and excess profits taxes paid or accrued by the third-tier foreign corporation. (Section 902(b)(2).)

You may not claim a credit under section 902 for taxes paid by a registered foreign investment company to which the election under section 1247(f) applies. (Section 1.1247–4(b)(2)(vii) of the regulations.)

For purposes of section 904, all foreign income taxes paid or deemed paid by a first-tier foreign corporation and deemed paid by the domestic corporation under section 902, are deemed to have been paid to the foreign country or U.S. possession under the laws of which such first-tier foreign corporation is created or organized. (Section 1.902–3(d)(2) of the regulations.)

(2) Under Section 960(a).—If a domestic corporation is required under section 951 to include in gross income an amount attributable to the earnings and profits of a foreign corporation (first-tier foreign corporation) of which it owns 10% or more of the voting stock, or of a foreign corporation (second-tier foreign corporation) of which such first-tier foreign corporation owns 50% or more of the voting stock, the domestic corporation is deemed to have paid a proportionate amount of the foreign income, war profits, and excess profits taxes paid, accrued, or deemed paid by such first-tier foreign corporation, or paid or accrued by such second-tier foreign corporation. (Section 1.960–1(c)(1) of the regulations.)

For amounts included in gross income under section 951 in taxable years beginning after December 31, 1976, a credit is allowed for taxes deemed to have been paid by a third-tier foreign corporation, and the percentage-of-voting-stock requirements are the same as under section 902.

(3) Mixed Application of Sections 902 and 960(a).—Section 902(b)(1) applies to all dividends received by a first-tier foreign corporation from a second-tier foreign corporation (as defined for purposes of section 960(a)) other than dividends attributable to earnings and profits of such second-tier foreign corporation in respect of which an amount is, or has been, included in the gross income of a domestic corporation under section 951 with respect to such second-tier foreign corporation. (Section 1.960–2(b) of the regulations.)

Section 902(a) applies to all dividends received by the domestic corporation for its taxable year from a first-tier foreign corporation, other than dividends attributable to earnings and profits of such first-tier foreign corporation in respect of which an amount is, or has been, included in the gross income of a domestic corporation under section 951 with respect to such first-tier foreign corporation. (Section 1.960–2(c)(1) of the regulations.)

If a first-tier foreign corporation for its taxable year receives from a second-tier foreign corporation (as defined for purposes of section 960(a)) dividends to which section 902(b)(1) applies and other dividends to which section 902(b)(1) does not apply, then in applying sections 902(a) and 960(a) with respect to the foreign income taxes deemed paid under section 902(b)(1) by such first-tier foreign corporation for such taxable year, the earnings and profits of the first-tier foreign corporation shall be considered not to include its earnings and profits attributable to such other dividends from the second-tier foreign corporation, and for purposes of so applying section 902(a), distributions to the domestic corporation from such earnings and profits which are attributable to such other dividends from the second-tier foreign corporation shall not be treated as a dividend. (Section 1.960–2(d) of the regulations.)

In taxable years beginning after December 31, 1976, computations under section 902 must also make allowance for any taxes deemed to have been paid by a third-tier foreign corporation under section 960(a).

(4) Entities Treated as Foreign.—For purposes of the deemed paid credit, the term "foreign corporation" includes: (1) a DISC or former DISC (as defined in section 992(a)), but only with respect to dividends from the DISC or former DISC to the extent such dividends are treated under sections 861(a)(2)(D) and 862(a)(2) as income from sources without the U.S.; and (2) a contiguous country life insurance branch, where an amount is added to the life insurance taxable income of the domestic life insurance company by reason of section 819A(e)(2). (Sections 901(d) and 819A (f)(1)(B).)

(5) Dividend Gross-up.—Under section 78, taxes deemed paid by a domestic corporation under sections 902 and 960(a) with respect to distributions by a foreign corporation must be included in income as dividend gross-up if: (a) the distribution is received by the domestic corporation after December 31, 1977; (b) the distribution is made out of the accumulated profits of the foreign corporation for a taxable year (of the foreign corporation) beginning after December 31, 1975; or (c) the distribution is made out of the accumulated profits of the foreign corporation for a taxable year (of the foreign corporation) beginning before January 1, 1976 in which the foreign corporation was not a less developed country corporation. (See section 1.960–3(b) of the regulations for exceptions.)

J. Reduction in Foreign Taxes.—

(1) Taxes on Foreign Oil and Gas Extraction Income.—The amount of any foreign taxes paid, accrued, or deemed paid in any taxable year ending after December 31, 1974 with respect to foreign oil and gas extraction income which may be taken into account for purposes of section 901 must be reduced by the amount (if any) by which the amount of such taxes exceeds the product of the amount of foreign oil and gas extraction income for such taxable year and the applicable percentage from Section 907(a)(2). (Section 907(a).)

For computation of the reduction, see separate Schedule F, Form 1118.

(2) Taxes on Foreign Mineral Income.—The amount of any income, war profits, and excess profits taxes paid or accrued, or deemed paid during the taxable year to any foreign country or U.S. possession with respect to foreign mineral income derived from sources within such country or possession must be reduced by the lesser of (a) the amount of such foreign taxes minus the amount of U.S. tax computed under Chapter 1 of the Code with respect to such foreign mineral income, or (b) the amount of U.S. tax which would be computed under Chapter 1 of the Code with respect to such foreign mineral income without regard to the deduction for percentage depletion under section 613 minus the amount of U.S. tax computed under Chapter 1 of the Code with respect to such foreign mineral income. The reduction must be made on a country-by-country basis. (Section 1.901–3(a)(1) of the regulations.)

The reduction applies only if a deduction for percentage depletion under section 613 was allowed with respect to any

part of such foreign mineral income. (Section 1.901–3(a)(3)(i) of the regulations.)

A schedule must be attached showing the computation described in (a) and (b) above of the foreign and U.S. tax with respect to foreign mineral income. (Section 1.901–3(a)(3)(iv) of the regulations.)

(3) Affiliated Groups Which Include One or More Western Hemisphere Trade Corporations.—If an affiliated group which includes one or more Western Hemisphere trade corporations files a consolidated return, the amount of taxes paid or accrued to foreign countries and U.S. possessions by such Western Hemisphere trade corporations must be reduced by the amount (if any) by which the smaller of (a) the amount of such taxes or (b) the amount of tax which would be computed under section 1503(a) if such corporations were not Western Hemisphere trade corporations with respect to the portion of the consolidated taxable income attributable to such corporations, exceeds the amount of tax computed under section 1503(a) with respect to the portion of the consolidated taxable income attributable to such corporations. The reduction is adjusted if the Western Hemisphere trade corporations are also regulated public utilities. (Section 1503(b).)

If a Western Hemisphere trade corporation is a member of an affiliated group and derives foreign oil and gas extraction income for the taxable year, the reduction for foreign taxes with respect to such income is the greater of the reduction determined as described above applied separately to such taxes or the reduction determined as described in instruction J(1).

(4) Failure to Furnish Return Required under Section 6038.—For each failure of a domestic corporation to furnish any return or any information in any return required under authority of section 6038 on or before the prescribed date, in the application of sections 902 and 960, all taxes paid or deemed paid by all foreign corporations controlled by such domestic corporation must be reduced by 10%, and in the application of section 901 all taxes paid or deemed paid (except taxes deemed paid under section 904(d) and taxes reduced in the application of sections 902 and 960) by such corporation must be reduced by 10%. If such failure continues for 90 days or more after the date of written notice by Internal Revenue to such domestic corporation, the reductions are 10% plus 5% for each three-month period or fraction thereof during which such failure continues after expiration of the 90-day period. (Section 1.6038–2(l) of the regulations.)

K. Limitation on Credit.—

For all taxable years beginning after December 31, 1975, the credit must be computed using the overall limitation. Under the overall limitation, the credit is limited to that percentage of the total U.S. income tax against which the credit is allowed which taxable income from sources without the U.S. (but not in excess of total taxable income) is of total taxable income. (Section 904(a).)

The credit must be computed separately (using a separate Form 1118) for foreign taxes paid or accrued with respect to: (1) section 904(d) interest income; (2) dividends from a DISC or former DISC; (3) foreign oil related income; (4) income from sources within U.S. possessions; and (5) all other income from sources without the U.S. On each Form 1118, the credit must be computed using the overall limitation, with the following exception. If in your last taxable year beginning before January 1, 1976 you used the per-country limitation, you must continue to use it (unless you elect the overall limitation) in computing the credit with respect to income from sources within U.S. possessions. (See also section 1031(c)(2) of the Tax Reform Act of 1976 for a general exception in the case of certain mining companies.)

The limitation may be increased under section 960(b) in a taxable year in which you receive a distribution of earnings and profits in respect of which you were required under section 951 to include an amount in gross income for a prior taxable year. See section 960 and section 1.960–4 of the regulations for computation of the increase in the limitation.

L. Computation of Taxable Income.—

(1) General Source Rules.—The determination of gross income, applicable deductions, and taxable income from sources without the U.S. and within each foreign country or U.S. possession must be made in accordance with sections 638 and 861 through 864 and the regulations thereunder, and applicable tax treaties. All income from sources without the U.S., including high seas income, must be taken into account.

(2) Capital Gains.—Generally, taxable income from sources without the U.S. includes gain from the sale or exchange of capital assets (including any gain so treated under section 1231) only in an amount equal to foreign source capital gain net income (the lesser of capital gain net income from sources without the U.S. or capital gain net income) reduced by three-eighths of foreign source net capital gain (the lesser of net capital gain from sources without the U.S. or net capital gain). Further, for purposes of the credit, taxable income from all sources includes gain from the sale or exchange of capital assets only in an amount equal to capital gain net income reduced by three-eighths of net capital gain, and any net capital loss from sources without the U.S., to the extent taken into account in determining capital gain net income, is reduced by three-eighths of the excess of net capital gain from sources within the U.S. over net capital gain. The term "capital gain net income" means the excess of the gains from sales or exchanges of capital assets over the losses from such sales or exchanges. (Section 904(b).)

See section 904(b)(3)(C) for gain from sources without the U.S. treated as gain from sources within the U.S. in case of sales or exchanges of certain personal property after November 12, 1975.

(3) Recapture of Foreign Losses.—If in any taxable year, beginning after December 31, 1975, you sustain an overall foreign loss in each succeeding taxable year you must treat as income from sources within the U.S. that portion of your taxable income from sources without the U.S. the lesser of: (a) the amount of the overall foreign loss not recaptured in prior years; or (b) 50% (or any higher percentage you choose) of your taxable income from sources without the U.S. Generally, an "overall foreign loss" is the amount by which gross income from sources without the U.S. is exceeded by the total deductions applicable to such income. However, see section 904(f) for certain losses not taken into account and special rules governing dispositions of property used predominantly outside the U.S. in a trade or business. See also sections 1031(c) and 1032(c) of the Tax Reform Act of 1976 for certain exceptions and transition rules.

See section 904(f)(4) for the determination of foreign oil related losses.

(4) Coordination with Section 936.—Taxable income taken into account for purposes of the section 936 credit is excluded from taxable income for purposes of computing the foreign tax credit limitation. (Section 904(b)(4).)

(5) Foreign Corporations Claiming Credit.—For purposes of computing the foreign tax credit limitation, taxable income includes only that taxable income which is effectively connected with the conduct of a trade or business within the U.S. (Section 906(b)(2).)

M. Carryback and Carryover of Excess Taxes Paid.—

Taxes paid or accrued, or deemed paid under sections 902 and 960 to any foreign country or U.S. possession (reduced as described in General Instruction J) in excess of the applicable limitation may be carried back 2 years and then forward 5 years. The excess must first be applied to the earliest of the 7 years to which it may be carried, then to the next earliest year, etc. (Section 904(c).)

If a credit was not claimed in a taxable year to which the excess is carried, the excess is considered used in such year in the same manner as though a credit had been claimed. (Section 1.904–2(c) of the regulations.)

The carryback and carryover provisions must be applied separately to the excess with respect to: (1) Section 904(d) interest income; (2) dividends from a DISC or former DISC; (3) foreign oil related income; (4) income from sources within U.S. possessions; and (5) all other income from sources without the U.S. (Sections 904(d)(1) and 907(b), and section 1031(c)(3) of the Tax Reform Act of 1976.)

If you used the per-country limitation in your last taxable year beginning before January 1, 1976, see the transition rules in section 904(e) for computing carrybacks to years beginning before January 1, 1976 and carryovers to years beginning after December 31, 1975.

See section 907(f) for rules governing the carryback and carryover of oil and gas

extraction taxes paid or accrued in excess of the section 907(a) limitation.

N. Foreign Corporations Claiming Foreign Tax Credit.—Section 906 allows foreign corporations a foreign tax credit for income, war profits, and excess profits taxes paid or accrued (or deemed paid or accrued under section 902) to any foreign country or U.S. possession with respect to income effectively connected with the conduct of a trade or business within the U.S. The credit is not applicable, however, to the extent the tax is imposed by a foreign country or U.S. possession on income from U.S. sources solely because the foreign corporation was created or organized under the law of the foreign country or U.S. possession or is domiciled there for tax purposes.

The credit cannot be taken against any tax imposed by section 881 on income not effectively connected with a U.S. business.

For purposes of section 902(a) (relating to tax deemed to have been paid) and section 78 (relating to gross-up of dividends), a foreign corporation claiming a foreign tax credit will be treated as a domestic corporation.

O. Reduction of Credit for International Boycott Operations.—Generally, if a person or any corporation controlled by that person agrees to participate in, or cooperate with an international boycott, that person must file Form 5713 and reduce the total taxes available for credit or the credit otherwise allowable.

If the taxes specifically attributable to boycott operations can be determined, reduce the total taxes available for credit by entering this amount on Schedule B, Part II, line 3.

However, if the above determination cannot be made, compute the reduction by multiplying the credit otherwise allowable by the international boycott factor. This reduction shall be made against the credit otherwise allowable and entered on Schedule B, Part III, line 7.

For additional information, see Form 5713 and the instructions thereto.

P. Method of Reporting.—Report all amounts in U.S. dollars. If it is necessary to convert from foreign currency, attach a statement explaining how you determined the rate.

Specific Instructions for Schedules A through E

Schedule A.—Taxable Income or (Loss) from Sources Without the U.S.

All applicable columns in Schedule A must be completed line by line including the "Totals" line.

In columns 2 through 9 report all gross income or (loss) from sources without the U.S. except: (1) gross income of foreign branches; and (2) gross income from activities described in section 863(b). In columns 11 and 12 report all deductions applicable to gross income reported in columns 2 through 9. See the instructions for columns 14 and 15 for treatment of income of foreign branches and section 863(b) income, respectively.

Report only gross income and deductions applicable to the determination of taxable income or (loss) from sources without the U.S. of the type for which Form 1118 is being completed.

Column 1.—Enter the names of all foreign countries and U.S. possessions within which income is sourced, and or to which taxes are paid, accrued, or deemed paid.

High seas income must be shown separately and be properly identified.

Column 2.—Report all dividends (before gross-up) from sources without the U.S., including constructive distributions under section 951. See section 861(a)(2)(A) for treatment of dividends from a domestic corporation which has an election in effect under Section 936 and from other domestic corporations less than 20 percent of whose gross income is derived from sources within the U.S. See section 861(a)(2)(B) for treatment of dividends from a foreign corporation 50 percent or more of whose gross income was effectively connected with the conduct of a trade or business within the U.S.

Column 3.—Enter the dividend gross-up for taxes deemed paid. See General Instruction I(5) for an explanation of the dividend gross-up.

Column 4.—If interest is excluded from section 904(d) interest by virtue of sections 904(d)(2)(C) or 904(d)(2)(D), a schedule must be attached showing in sufficient detail the manner in which the 10% direct or indirect ownership requirements are met.

Column 6.—Include gross income, whether in the form of compensation, commissions, fees, or otherwise derived from the performance of technical, managerial, engineering, construction, scientific or similar services. Do not include gross income from services performed through a foreign branch.

Column 9.—Include all other gross income from sources without the U.S., except gross income of foreign branches and gross income from activities described in section 863(b). Attach a schedule identifying the gross income by type and by foreign country or U.S. possession of source.

Column 11(d).—Include all other deductions definitely allocable to income from sources without the U.S. (dividends, interest, etc.) except deductions allocable to income of foreign branches and section 863(b) income.

The reduction for three-eighths of foreign source net capital gain should be reported here.

Column 12.—Section 862(b) provides that a ratable part of expenses, losses, and other deductions which cannot definitely be allocated to some item or class of gross income shall be deducted from gross income from sources without the U.S. in arriving at taxable income from sources without the U.S. Report in column 12 only that ratable part which applies to gross income reported in columns 2 through 9. Attach a schedule showing in detail the determination of this ratable part.

Column 14.—Attach a schedule showing in detail the determination of taxable income or (loss) of each foreign branch. The schedule should include, for each foreign branch, an income statement, balance sheet, and schedule of midyear remittances.

Column 15.—Section 863(b) and the regulations thereunder provide special rules for determining taxable income from sources without the U.S. with respect to gross income derived partly within and partly without the U.S. Report in column 15 taxable income or (loss) apportioned to sources without the U.S. under these special rules. (Taxable income of foreign branches from sources without the U.S. determined under these special rules should be reported in column 14, not column 15.) Attach a schedule showing gross income, definitely allocable deductions, the ratable part of deductions not definitely allocable, and the apportionment of taxable income to sources within and without the U.S.

Schedule B
Part I.—Foreign Taxes Paid or Accrued and Deemed to Have Been Paid.

All applicable columns in Schedule B, Part I must be completed line by line including the totals line.

Report only foreign taxes paid or accrued and deemed paid with respect to the type of income for which Form 1118 is being completed.

Column 1.—If you claim a credit for taxes accrued, show both the date accrued and the date paid (if paid). (See General Instruction F.)

Column 2.—Enter the type of tax (income, war profits, or excess profits).

Column 4.—Enter foreign taxes paid or accrued on the line for the country or U.S. possession imposing the tax. Report all amounts in U.S. dollars. If amounts were converted from foreign currency, attach a schedule showing in detail how the conversion rates were determined. See General Instruction H for proof of credits required.

Include in column 4(g) tax withheld at source on income other than dividends, interest, rents, royalties, and license fees, and all other foreign taxes paid or accrued. Do not include taxes deemed to have been paid, which are reported in column 5.

Column 5.—Enter the tax deemed to have been paid to each foreign country or U.S. possession from column 11, Schedule C.

Part II.—Computation of Foreign Tax Credit.

Use a separate Schedule B, Part II for each U.S. possession if you are using the per-country limitation method for computing the credit with respect to income from sources within U.S. possessions.

Part III.—Summary of Credits from Separate Forms 1118.

Complete Schedule B, Part III on only one Form 1118. Enter the credits from Schedule B, Part II, line 15 of the separate Forms 1118 on lines 1 through 5 as appropriate.

Schedule C.—Computation of Taxes Deemed to Have Been Paid by Domestic Corporation Filing this Return

Column 2.—If dividends are from the accumulated profits of more than 1 year, the tax deemed to have been paid must be computed and shown on a separate line for each year.

Computations under section 902(a) and 960(a) for a first-tier foreign corporation, even though for the same year, must be made on separate lines. Further, separate lines must be used for computations under sections 902(a) and 960(a) with respect to the foreign income taxes deemed paid by a first-tier foreign corporation under section 902(b)(1). (See General Instruction I(3).)

Column 3.—If computation is for a second-tier or third-tier foreign corporation under section 960(a), also indicate (in parentheses) the country of incorporation of the first-tier foreign corporation of such second-tier or third-tier foreign corporation.

Column 5.—See General Instruction H for proof of credit required, and General Instruction J(4) for reduction of foreign taxes for failure to furnish information required under section 6038.

Column 6.—See General Instruction I(3) for exclusions from the earnings and profits of a first-tier foreign corporation for purposes of applying sections 902(a) and 960(a) with respect to the foreign income taxes deemed paid by such first-tier foreign corporation under section 902(b)(1).

Column 7.—Enter the amount of dividends: (1) paid or constructively distributed by the related foreign corporation to the domestic corporation; and (2) paid or deemed distributed by the DISC or former DISC to the domestic corporation.

See General Instruction I(3) for certain distributions made by a first-tier foreign corporation to the domestic corporation which are not treated as dividends for purposes of applying section 902(a) with respect to the foreign income taxes deemed paid by such first-tier foreign corporation under section 902(b)(1).

For purposes of section 902, Internal *Revenue* may determine from which year's accumulated profits the dividends were paid. In making the determination, Internal Revenue will, unless it is otherwise established to its satisfaction, treat any dividends which are paid in the first 60 days of any taxable year as having been paid from the accumulated profits of the preceding taxable year or years, and will treat dividends which are paid after the first 60 days of any taxable year as having been paid from the most recently accumulated profits.

Column 8.—For dividends paid by a foreign corporation out of accumulated profits of a year for which the foreign corporation was a less developed country corporation, disregard the instruction in the column heading and enter the amount determined by multiplying column 5 by column 6 and dividing the result by the gains, profits, and income for the year.

The gains, profits, and income is determined by the gains, profits, and income from all sources, whether or not subject to foreign tax, for the year from which the dividends (column 7) were paid.

Schedule D.—Computation of Tax Deemed to Have Been Paid by First-tier Foreign Corporations

Column 1.—Enter the name of the second-tier foreign corporation and its related first-tier foreign corporations.

Column 2.—If dividends are from the accumulated profits of more than 1 year, the tax deemed to have been paid must be computed and shown on a separate line for each year.

Column 5.—Same instructions as Schedule C.

Column 7.—Enter the amount of dividends paid by the second-tier foreign corporation to the first-tier foreign corporation to which section 902(b)(1) applies. (See General Instruction I(3).)

Column 8.—Same instructions as Schedule C.

Column 11.—Carry the amount of tax deemed to have been paid to Schedule C, column 9 and enter on the line for the related first-tier foreign corporation.

Schedule E.—Computation of Tax Deemed to Have Been Paid by Second-tier Foreign Corporations

Column 1.—Enter the name of the third-tier foreign corporation and its related second-tier foreign corporation.

Column 2.—Same instructions as Schedule D.

Column 5.—Same instructions as Schedule C.

Column 7.—Enter the amount of dividends paid by the third-tier foreign corporation to the second-tier foreign corporation.

Column 8.—Same instructions as Schedule C.

Column 10.—Enter the amount from column 8.

Column 11.—Carry the amount of tax deemed to have been paid to Schedule D, column 9 and enter on the line for the appropriate year of the related second-tier foreign corporation.

Schedule F.—Computation of Reduction of Oil and Gas Extraction Taxes

Attach Schedule F (Form 1118) if you derived any foreign oil and gas extraction income during the taxable year.

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