



Instructions for Form 1116

Foreign Tax Credit (Individual, Estate, or Trust)

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

What's New

Income re-sourced by treaty. For tax years beginning after August 10, 2010, you must compute a separate foreign tax limit for any item of U.S. source income that is re-sourced as foreign income under an income tax treaty of which you claim benefits. See *d. Certain Income Re-Sourced by Treaty* on page 4. If your tax year is the calendar year, this change applies to your returns for 2011 and later years.

General Instructions

Election To Claim the Foreign Tax Credit Without Filing Form 1116

You may be able to claim the foreign tax credit without filing Form 1116. If you make this election, the foreign tax credit limitation (lines 14 through 20 of the form) will not apply to you. This election is available only if you meet one of the following conditions.

- All of your foreign source gross income was "passive category income" (which includes most interest and

dividends) (see page 3). However, for this purpose, passive income also includes (a) income subject to the special rule for high-taxed income described on page 4, and (b) certain export financing interest.

- All the income and any foreign taxes paid on it were reported to you on a qualified payee statement. Qualified payee statements include Form 1099-DIV, Form 1099-INT, Schedule K-1 (Form 1041), Schedule K-1 (Form 1065), Schedule K-1 (Form 1065-B), Schedule K-1 (Form 1120S), or similar substitute statements.
- Your total creditable foreign taxes are not more than \$300 (\$600 if married filing a joint return).

This election is not available to estates or trusts.

If you make this election:

- You cannot carry over to any other year any foreign taxes paid or accrued in a tax year to which the election applies (but carryovers to and from

you would have entered on line 12 of Form 1116. See the instructions for Line 12 on page 16.

To make the election, just enter on the foreign tax credit line of your tax return (for example, Form 1040, line 47) the smaller of (a) your total foreign tax or (b) your regular tax (for example, Form 1040, line 44).

Purpose of Form

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

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

See *Foreign Taxes Eligible for a Credit* on page 2 to determine if the taxes you paid or accrued qualify for the credit.

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

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

• You are a resident of Puerto Rico for your entire tax year, or

• You pay or accrue tax to a foreign country or U.S. possession on income from U.S. sources that is effectively connected with a trade or business in that country or U.S. possession. But if you must pay tax to a foreign country or U.S. possession on income from U.S. sources that is effectively connected with a trade or business in that country or U.S. possession, do not use that tax in figuring the amount of your credit.

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

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Foreign Tax Deduction

If you are claiming a credit for eligible foreign taxes, you can choose to deduct those taxes instead. Form 1116 is not required if you are choosing to do so. See the instructions for Form 1040, *Form 1040*, Itemized Deductions. Generally, if you take the credit for any eligible foreign taxes, you

Text below is an excerpt from page 2, column 1 of instructions for IRS Form 1116, 2010.

Foreign Taxes Not Eligible for a Credit

You cannot take a credit for the following foreign taxes.

1. Taxes paid to a foreign country that you do not legally owe, including amounts eligible for refund by the foreign country. If you do not exercise your available remedies to reduce the amount of foreign tax to what you legally owe, a credit for the excess amount is not allowed.

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

Tax Help

For more information about, or assistance with, using these IRS resources are available.

IRS Contacts	<ul style="list-style-type: none"> • Call 1-800-829-1040 • Call 267-941-4200 • Contact your local IRS office • Before you travel, contact the IRS International Liaison Office, 19020-1100, Revenue Center, 19255-0100
Publications	<ul style="list-style-type: none"> • Pub. 502, <i>Foreign Tax Credit</i> • Pub. 505, <i>Foreign Tax Credit</i> • Pub. 506, <i>Foreign Tax Credit</i> • Pub. 507, <i>Foreign Tax Credit</i> • Pub. 508, <i>Foreign Tax Credit</i> • Pub. 509, <i>Foreign Tax Credit</i>