



Foreign Tax Credit

SCHEDULE 3
(Form 1040)

Additional Credits and Payments

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to www.irs.gov/Form1040 for instructions and the latest information.

2022
Attachment
Sequence No. 03

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number

Part I Nonrefundable Credits

1	Foreign tax credit. Attach Form 1116 if required	1	
2	Credit for child and dependent care expenses from Form 2441, line 11. Attach Form 2441	2	

Form **1116**

Foreign Tax Credit

OMB No. 1545-0121

Department of the Treasury
Internal Revenue Service (99)

(Individual, Estate, or Trust)
▶ Attach to Form 1040, 1040-SR, 1040-NR, 1041, or 990-T.
▶ Go to www.irs.gov/Form1116 for instructions and the latest information.

2021
Attachment
Sequence No. 19

Name

Identifying number as shown on page 1 of your tax return

Use a separate Form 1116 for each category of income listed below. See *Categories of Income* in the instructions. Check only one box on each Form 1116. Report all amounts in U.S. dollars except where specified in Part II below.

- a Section 951A category income
- b Foreign branch category income
- c Passive category income
- d General category income
- e Section 901(j) income
- f Certain income re-sourced by treaty
- g Lump-sum distributions

h Resident of (name of country) ▶

Note: If you paid taxes to only one foreign country or U.S. possession, use column A in Part I and line A in Part II. If you paid taxes to more than one foreign country or U.S. possession, use a separate column and line for each country or possession.

Part I Taxable Income or Loss From Sources Outside the United States (for category checked above)

i	Enter the name of the foreign country or U.S. possession ▶	Foreign Country or U.S. Possession			Total (Add cols. A, B, and C.)
		A	B	C	

About Foreign Tax Credit

- Additional resources listed in L< “References” tab
- Review all tips and cautions in the lesson
- Read all examples and sample interviews
- We will review answers to each exercise

Objectives – Foreign Tax Credit

- Determine which taxes and types of foreign income are eligible for the foreign tax credit (FTC)
- Compute the credit accurately using Form 1116
- Calculate and report the foreign tax credit as a nonrefundable credit
- Time Required: 30 minutes

Topics



- Foreign Tax Credit
- Election To Claim Foreign Tax Credit Without Filing Form 1116



- Qualifying Requirements
- Economic Benefit
- Types of Income
- Form 1116

Key Terms

Definitions are always available in the L< online Glossary.

- Accrual Method
- Cash Method
- Foreign Earned Income Exclusion
- Foreign Tax Credit
- High Taxed Income
- Nonrefundable Credit
- Passive Income
- Refundable Credit

Foreign Tax Credit

- Credit applies to taxpayers who have paid taxes to a foreign country on foreign-sourced income and are subject to U.S. tax on the same income
- If the foreign tax paid is reported on Form 1099-INT, Form 1099-DIV, or Schedule K-1 the taxpayer may be able to report it without needing to file Form 1116
- If the foreign tax paid is a result of living and working outside the U.S., use Form 1116 to compute the credit
- Four tests must be met to qualify for the credit:
 - The tax must be imposed on the taxpayer
 - The taxpayer must have paid or accrued the tax
 - The tax must be a legal and actual foreign tax liability, and
 - The tax must be an income tax
- The foreign earned income exclusion is different from the foreign tax credit; choose the approach that results in lower tax

Election To Claim Foreign Tax Credit Without Filing Form 1116

- Taxpayers can report foreign tax on Form 1040 without filing Form 1116 as long as certain conditions are met
- See Pub 4012, Income tab, Interest and Dividend Income

Qualifying Requirements



- To qualify for the credit, a taxpayer must:
 - Have earned income in a foreign country
 - Have paid taxes on that income to the foreign country
 - Not have claimed the foreign earned income exclusion on the same income
- Foreign taxes that generally qualify for the FTC include taxes on:
 - Wages
 - Dividends
 - Interest
 - Royalties
 - Annuities

Economic Benefit



- Foreign tax credit cannot be taken if the foreign tax paid provided a specific economic benefit for the taxpayer
- Taxes paid to or accrued by certain sanctioned countries do not qualify for the FTC
- See Publication 514 or visit www.irs.gov for the current list of sanctioned countries

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 2021. Income taxes paid or accrued to these countries in 2021 do not qualify for the credit.

- Iran.
- Libya (but see [Note](#), later).
- North Korea.
- Sudan.
- Syria.

Types of Income



- Types of foreign income generally within scope:
 - Passive category income
 - General category income
- Income that is taxed by a foreign government at a higher rate than U.S. income tax is classified as general category income

Name _____ Identifying number as shown on page 1 of your tax return **current year not available**

Use a separate Form 1116 for each category of income listed below. See *Categories of Income* in the instructions. Check only one box on each Form 1116. Report all amounts in U.S. dollars except where specified in Part II below.

a Passive category income c Section 901(j) income e Lump-sum distributions
b General category income d Certain income re-sourced by treaty

f Resident of (name of country) ▶ _____

Note: If you paid taxes to only one foreign country or U.S. possession, use column A in Part I and line A in Part II. If you paid taxes to more than one foreign country or U.S. possession, use a separate column and line for each country or possession.

Form 1116



- To qualify for the foreign tax credit, the taxpayer, income, and taxes must all meet specific requirements. The credit is computed and reported on Form 1116. A separate Form 1116 must be completed for each category of income.
- Some of these situations are complicated and beyond the scope of the VITA/TCE programs, such as:
 - Expenses directly related to the foreign income
 - Investment interest expense
 - Foreign losses, such as those from selling foreign assets or a loss from a business or partnership
- For step-by-step instructions on completing Form 1116, refer to [Pub 4012, Nonrefundable Credits tab](#).

Out of Scope for this Lesson:

- Taxpayers who must complete Form 1116 because they cannot elect to report foreign tax on Form 1040, Schedule 3, unless your site has a volunteer and a reviewer with an International certification
- Taxpayers who may deduct a foreign income tax that is not allowed as a credit in certain circumstances
- Certain expenses deducted to reduce foreign gross income
- Taxpayers who must report a carryback or carryover on Form 1116, Part III
- Foreign income from a sanctioned country, using the Section 901(j) income category

Summary

- Taxpayers who paid taxes to a foreign country may be able to take a nonrefundable foreign tax credit (FTC).
- Generally, Form 1116 is required to claim the FTC.
- Certain taxpayers may be able to claim FTC without Form 1116. This is the only FTC that is in scope for Advanced certification.
- To qualify for the FTC, the taxpayer, income, and taxes must all meet specific requirements.
- If the taxpayer uses the foreign earned income exclusion, foreign tax paid on the excluded income cannot be used to claim the FTC.
- Only volunteers with International certification may help taxpayers file Form 1116.