

# Form 1116 – Foreign Tax Credit



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## Form 1116 - Foreign Tax Credit

In order to claim a credit for any foreign taxes paid without filing Form 1116, you must answer **Yes** to all of the following questions:

- Is all of your gross foreign source income Passive Category Income such as interest and dividends?
- Was all of that interest and dividend income reported to you on Form 1099-INT, Form 1099-DIV, or Schedule K-1?
- If you had dividend income from shares of stock, did you hold those shares for at least 16 days?
- Is the total of your foreign taxes less than or equal to **\$300**
- Were all of your taxes:
  - A. Legally owed and not eligible for a refund; AND
  - B. Paid to countries that are recognized by the United States; AND
  - C. Paid to countries that do not support terrorism?

Foreign tax credit not over **\$300**

Note: Only enter an amount if you answered Yes to all the questions above.

\$

If you are needing to file Form 1116 because you are not making the election above, complete Form 1116 Foreign Tax Credit.

**GO TO FORM 1116**

ONLY the Simplified Limitation Election for the foreign tax credit is in scope for Advanced certification. To be eligible for this election, qualified foreign taxes must be \$300 (\$600 if MFJ) or less, all foreign source income is passive category (such as interest and dividends) and taxpayer meets the other requirements as explained in Instructions for Form 1116. Do not enter amounts from Forms 1099-INT, Box 6, or 1099-DIV, Box 7. The software will include these in the foreign tax credit calculation. Foreign taxes from Forms K-1 should be entered here.

Both the tax return preparer and quality reviewer must have International certification to prepare Form 1116.

**Note:** If the taxpayer has a carryback or a carryforward of unused foreign tax, refer taxpayer to a professional tax preparer.



Foreign income tax is also eligible to be claimed on Schedule A as an itemized deduction. While that is an option, foreign tax claimed as a credit is generally more advantageous for taxpayers.

# Form 1116 – Foreign Tax Credit (continued)

### Foreign tax credit

Section 951A income	<b>BEGIN</b>	
Foreign branch income	<b>BEGIN</b>	
Passive income	<b>BEGIN</b>	
General limited income	<b>BEGIN</b>	
Section 901(j) income	<b>BEGIN</b>	
Income resourced by treaty	<b>BEGIN</b>	
Lump-sum distributions	<b>BEGIN</b>	

Out of Scope

Passive and General limited income are in scope with International Certification only. Select the appropriate category. If taxpayer has income in more than one category or from more than one country, another form can be added later.

Out of Scope

### Passive income

Country of residence \*

- Please Select -

Select country of residence

Are you reporting income that passed through a mutual fund or other regulated investment company (RIC) on a country-by-country basis?

Do you have passive income that is treated as general category income because it is highly taxed?

Carryback or Carryover \$

Reduction in Foreign Taxes \$

Adjustments \$

Reduction of credit for international boycott operations

\$

Type of Income

**Credit is claimed for taxes paid or accrued**

Paid

Accrued

Indicate whether the foreign tax was actually paid during the tax year (paid) or if the tax was billed in one year but paid in another (accrued). A taxpayer using the cash basis can choose to use either the cash or accrual method to determine the foreign tax credit. However, if the accrual method is chosen, the taxpayer must continue to use the accrual method for the foreign tax credit on all future returns.

# Form 1116 – Foreign Tax Credit (continued)

Foreign Country or U.S. possession

Qualified Dividends/Capital Gains Taxed at 0% from Country

Qualified Dividends/Capital Gains Taxed at 15% from Country

Qualified Dividends/Capital Gains Taxed at 20% from Country

Gross income from sources within the country of the specified type (Do not include income excluded by Form 2555, Foreign Earned Income)

Expenses Directly Allocable to Income

Other Deductions

Select the country that imposed the tax.

Enter the gross income (not the tax) of this category type where indicated. Enter income from this category type only, not total income. Do not enter any income excluded by Form 2555.

Enter the gross income of this category type where indicated. Enter income from this category type only, not total income. Include any income excluded by Form 2555, but only if that income is of the category selected (passive or general income).

Gross income from sources within the country of the specified type (Including any income excluded by Form 2555, Foreign Earned Income)

Home mortgage interest

Other interest expense

Losses from foreign sources

Date paid or accrued \*

Foreign taxes paid or accrued in foreign currency  
 Tax Withheld on Dividends (in Foreign Currency)    
 Tax Withheld on Rents/Royalties (in Foreign Currency)    
 Tax Withheld on Interest (in Foreign Currency)    
 Other Foreign Taxes (in Foreign Currency)

Foreign taxes paid or accrued in U.S. dollars  
 Dividends   
 Rents and royalties   
 Interest   
 Other taxes

**CANCEL** **CONTINUE**

Enter the date the tax was paid or accrued.

Select the itemized amounts boxes to enter taxes paid in foreign currency in the appropriate category.

If your gross foreign source income (including income excluded on Form 2555) does not exceed \$5,000, you can allocate all your interest expense to U.S. source income. Otherwise, deductible home mortgage interest (including points and qualified mortgage insurance premiums) is apportioned using a gross income method. See Instructions for Form 1116.

Generally, you must enter the amount of foreign taxes, in both the foreign currency denomination(s) and as converted into U.S. dollars, that relate to the category of income checked (Passive or General limited income).

Enter the taxes paid (in U.S. dollars) in the appropriate category.