

1995



Department of the Treasury  
Internal Revenue Service

# Instructions for Form 1116

## Foreign Tax Credit

### (Individual, Estate, Trust, or Nonresident Alien Individual)

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

## Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

**Recordkeeping** ..... 2 hr., 44 min.

**Learning about the law or the form** ..... 46 min.

**Preparing the form** ..... 1 hr., 53 min.

**Copying, assembling, and sending the form to the IRS** ..... 55 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the IRS at the address listed in the instructions of the tax return with which this form is filed.

## General Instructions

### Purpose of Form

Use Form 1116 to figure the foreign tax credit for certain taxes paid or accrued to a foreign country or U.S. possession. See **Foreign Taxes for Which You May Take 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 Virgin Islands. Instead, use **Form 8689**, Allocation of Individual Income Tax to the Virgin Islands.

If you claim a foreign tax credit, you may be liable for the alternative minimum tax. Get **Form 6251**, Alternative Minimum Tax—Individuals, for details.

For more information about how to figure the foreign tax credit, get **Pub. 514**, Foreign Tax Credit for Individuals. You can get it from an IRS Distribution Center.

### Who Should File

Use Form 1116 to figure your foreign tax credit if you are an individual, estate, or trust, and you paid or accrued foreign taxes for tax year 1995. If you are a nonresident alien, see **Nonresident Aliens** below.

### How To Complete Form 1116

Use a separate Form 1116 (Parts I, II, and III) to figure the credit for foreign taxes paid or accrued for each category of income specified above Part I of the form. See **Categories of Income** on page 3 to find out what kind of income is contained in each category. If you have income from or have paid taxes to more than one foreign country or U.S. possession for one of the categories listed, use a separate column in Part I and a separate line in Part II for each country or possession, unless you meet the exception described below. If you paid taxes to more than three countries or possessions and do not meet the exception, attach additional sheets following the format of Parts I and II.

#### Exception to country-by-country reporting requirements.—

Generally, if you received income from or paid taxes to more than one foreign country or U.S. possession, you must report information on a country-by-country basis on Form 1116, Parts I and II. However, this requirement does not not apply if:

1. Your only foreign income was income in the passive income category on Form 1116, and the income (and any foreign taxes paid on it) was reported to you on Form 1099-DIV, Form 1099-INT, or a similar statement; and,
2. The total of all your foreign taxes on Forms 1099-DIV (Box 3), Form 1099-INT (Box 5), and similar

statements, does not exceed \$200 (\$400 if married filing jointly).

If both of the above apply, complete Form 1116 as follows:

Check the box for passive income above Part I. In Part I, do not use separate columns to report the income from each country. Instead, report all your foreign income in column A. On line j of column A, write "Various." Complete the rest of the lines that apply to you in Part I.

In Part II, complete only line A, columns (m) and (v). In column (m), write "12/31/95—Form 1099." In column (v), enter the total foreign taxes from all Forms 1099-DIV, 1099-INT, or similar statements. Complete Parts III and IV of the form.

### Credit or Deduction

Instead of taking the credit on Form 1116, you may choose to deduct foreign income taxes on Schedule A (Form 1040). Generally, if you take the credit for any allowable foreign taxes, you may not take any part of that year's foreign tax as a deduction, either in the year you take the credit or in any later year. However, you may take a deduction for foreign taxes not allowed as a credit because of boycott provisions, even if you have taken the credit for other foreign taxes for the year. You may also deduct taxes paid to certain foreign countries for which a credit has been denied under section 901(j)(2), even if you take the credit for other foreign taxes.

If you want to change your election to take a deduction instead of a credit or a credit instead of a deduction, you must do so within a special 10-year limitation period. See Pub. 514 for more details.

### Nonresident Aliens

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

1. You are a resident of Puerto Rico during your entire tax year, or