



# Instructions for Form 5471

(Revised June 1995)

## Information Return of U.S. Persons With Respect to Certain Foreign Corporations

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 and related schedules will vary depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing and sending the form to the IRS
5471	87 hr., 32 min.	25 hr., 56 min.	32 hr., 6 min.
Sch. J (5471)	3 hr., 50 min.	1 hr.	1 hr., 6 min.
Sch. M (5471)	26 hr., 33 min.	6 min.	32 min.
Sch. N (5471)	8 hr., 22 min.	2 hr., 47 min.	3 hr., 2 min.
Sch. O (5471)	10 hr., 46 min.	12 min.	23 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form and related schedules simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

## General Instructions

### Changes To Note

#### When to File 1995 Revision

The 1995 revision of Form 5471 may be used for returns filed on or after July 1, 1995, but must be used for all returns filed after June 30, 1996. The October 1990 revision of Form 5471 may be used for returns filed prior to July 1, 1996.

#### Electronic Filing of Form 5471

Form 5471 and the related schedules can now be filed by magnetic media (magnetic tapes, floppy diskettes) or electronically. For more information, see **Electronic Filing of Form 5471** on page 4 of the instructions.

#### Currency Translation Rules

Final regulations have been issued relating to currency translation. Regulations sections 1.6038-2(h) and 1.6046-1(g) now require that certain amounts be reported in U.S. dollars and/or functional currency. These changes are effective for tax years ending after December 31, 1994, but only for returns filed after December 31, 1995.

Special rules apply to corporations that use the U.S. dollar approximate separate transactions method (DASTM) of accounting under Regulations section 1.985-3.

Changes to Form 5471 and the related schedules include the following:

- Schedule C now contains a "functional currency" column. Filers are now required to report the foreign corporation's income

statement amounts in both functional currency and U.S. dollars.

- Schedule H, lines 1 through 5c are now completed in functional currency. On new line 5b, foreign corporations using the dollar approximate separate transactions method must report DASTM gain or loss. On new line 5d, filers are now required to report the foreign corporation's current earnings and profits (E&P) in U.S. dollars (translated from functional currency at the weighted average exchange rate for the year) and the exchange rate used in the translation.

- In the instructions for Schedule I, Worksheets A through E are now completed in functional currency. See the instructions for Schedule I, beginning on page 6.

- Schedule J is now a separate schedule (similar to Schedules M, N, and O) and is completed in functional currency.

#### Earnings Invested in Excess Passive Assets

The Revenue Reconciliation Act of 1993 (the Act) eliminated the deferral of earnings of a controlled foreign corporation (CFC) that are invested in "excess passive assets" (defined in new section 956A). The amount now required to be included in income of the U.S. shareholder is the shareholder's pro rata share of earnings of the CFC invested in excess passive assets that have not been previously taxed. These rules are effective for earnings accumulated after September 30, 1993. The Act also modified the rules for determining the amount includible in a U.S. shareholder's income if the CFC invested

in U.S. property. See sections 956(a) and (b), as modified by the Act.

Schedules I and J and the related instructions were revised to reflect the changes as follows:

- Line 5 of Schedule I was added to report inclusions attributable to earnings invested in excess passive assets.
- In the instructions for Schedule I, Worksheet B was revised and new Worksheet E was added.
- On Schedule J, column (c)(ii) was added to report previously taxed E&P invested in excess passive assets.

#### Dormant Foreign Corporation

A foreign corporation that qualifies as a dormant foreign corporation can now elect to use a summary filing procedure rather than filing a complete Form 5471 (Rev. Proc. 92-70, 1992-2 C.B. 435). See **Dormant Foreign Corporations** on page 4 for details.

#### Other Changes

- Item D on page 1 of Form 5471 was formerly Schedule K on page 4 of the previous version of the form.
- Schedules D and G of the October 1990 version of Form 5471 have been eliminated.
- On Schedule I, we have added new line 8 (relating to dividends received from foreign corporations) and new line 9 (relating to exchange gain or loss on a distribution of previously taxed income). Accordingly, Category (4) filers who receive these types of income should now file Schedule I, even if they are not also described in Category (5).
- Schedule J has been revised to state separately the amounts of post-1986 undistributed earnings, pre-1987 earnings not previously taxed, and previously taxed earnings and profits.
- On Schedule M, lines 19 and 20 request maximum balances during the year of gross amounts borrowed from, and gross amounts loaned to, the related parties described in columns (b) through (f). Do not enter aggregate cash flows, year-end loan balances, average balances, or net balances.

#### Purpose of Form

Form 5471 is used by certain U.S. citizens and residents who are officers, directors, or shareholders in certain foreign corporations. The form and schedules are used to satisfy the reporting requirements of sections 6035, 6038, 6046, and the related regulations.

#### Who Must File

Generally, the U.S. persons described in **Categories of Filers** below must complete the schedules, statements, and/or other information requested in the chart, **Filing Requirements For Categories of Filers**, on page 2. Read the information for each of the categories of filers carefully to determine which schedules, statements,

and/or information apply. Do not duplicate information if the filer is described in more than one filing category. However, complete all schedules that apply. For example, if you are the sole owner of a CFC that is also a foreign personal holding company (i.e., you are described in Categories (1), (4), and (5)), you would complete all four pages of Form 5471 and separate Schedules J, M, and N.

Complete a separate Form 5471 and the applicable schedules for each foreign corporation. Be sure to complete Item B (at the top of page 1 of the form) to indicate the category or categories that describe the filer. If more than one category applies, check all boxes that apply.

If you are filing Form 5471 and applicable schedules for another person who has the same filing requirements, be sure to complete Item D at the top of page 1 of the form. Before completing Item D, read the specific instructions on page 4.

### Categories of Filers

**Category (1) filer.**—This includes a U.S. citizen or resident who is an officer, director, or 10% shareholder of a foreign personal holding company.

A 10% shareholder is any individual who owns, directly or indirectly (within the meaning of section 554), 10% or more in value of the outstanding stock of the foreign personal holding company.

See section 552 for the definition of a foreign personal holding company.

**Category (2) filer.**—This includes a U.S. citizen or resident who is an officer or director of a foreign corporation in which, since the last time Form 5471 was filed, a U.S. person has acquired (in one or more transactions): (a) stock of the foreign corporation that gives that person ownership of 5% or more in value of the outstanding stock of the foreign corporation, or (b) an additional 5% or more in value of the outstanding stock. See **Schedule O, Examples of Category (2) Filers**, on page 14.

For purposes of Category (2), a U.S. person is:

1. A citizen or resident of the United States,
2. A domestic partnership,
3. A domestic corporation, and
4. An estate or trust that is not a foreign estate or trust defined in section 7701(a)(31).

See Regulations section 1.6046-1(f)(3) for exceptions pertaining to corporations organized under the laws of certain possessions of the United States.

A U.S. person has acquired stock in a foreign corporation when that person has an unqualified right to receive the stock, even though the stock is not actually issued. See Regulations section 1.6046-1(f)(1) for more details.

(Continued on page 3)

### Filing Requirements For Categories of Filers

Required Information	Category of Filer				
	1	2	3	4	5
The identifying information on page 1 (the information above Schedule A)—see <b>Specific Instructions</b>	✓	✓	✓	✓	✓
Schedule A, Part I	✓		✓	✓	
Schedule A, Part II	✓				
Schedule B	✓		✓	✓	
Schedules C, E, and F			✓	✓	
Schedule H				✓	✓
Schedule I				✓	✓
Separate Schedule J				✓	✓
Separate Schedule M				✓	
Separate Schedule N	✓				
Separate Schedule O, Part I		✓			
Separate Schedule O, Part II			✓		

### Additional Filing Requirements

Category (3) filers must attach a statement showing the amount and type of any indebtedness of the foreign corporation to the related persons described in Regulations section 1.6046-1(b)(11). These filers must also attach a statement showing the name, address, identifying number, and number of shares subscribed to by each subscriber to the foreign corporation's stock.

Taxpayers are not required to file the information checked above for a foreign corporation that has elected (under section 953(d)) to be treated as a domestic corporation and has filed a U.S. income tax return for its tax year under that provision.

**Foreign Sales Corporations (FSCs).**—Category (2) and (3) filers who are shareholders, officers, and directors of a FSC (as defined in section 922) do not have to file Form 5471 and separate Schedule O to report the organization of a FSC. However, any subsequent reorganization, transfer, acquisition, or disposition of stock of the FSC must be reported.

Category (5) shareholders of a FSC are not subject to the subpart F rules for:

- Exempt foreign trade income;
- Deductions that are apportioned or allocated to exempt foreign trade income;
- Nonexempt foreign trade income (other than section 923(a)(2) nonexempt income, within the meaning of section 927(d)(6));
- Any deductions that are apportioned or allocated to the nonexempt foreign trade income described above.

Shareholders of a FSC are subject to the subpart F rules for all other types of FSC income (including section 923(a)(2) nonexempt income (within the meaning of section 927(d)(6)), investment income and carrying charges (as defined in sections 927(c) and (d)(1)), and all other FSC income that is not foreign trade income or investment income or carrying charges). However, Category (5) shareholders of a FSC are not required to file a Form 5471 if the FSC has filed a Form 1120-FSC. See Regulations section 1.921-1T(b)(2), Q&A 3.

**Category (3) filer.**—This includes:

- A U.S. person who has acquired (in one or more transactions) stock in a foreign corporation that gives the U.S. person ownership of 5% or more in value of the outstanding stock of the foreign corporation;
- A U.S. person who, since the last time Form 5471 was filed, has acquired (in one or more transactions) additional stock of the corporation equal to 5% or more of the value of the outstanding stock of the foreign corporation;
- A U.S. person who owns 5% or more in value of the outstanding stock of the foreign corporation when the foreign corporation is reorganized;
- A U.S. person who disposes of sufficient stock in the foreign corporation to reduce his or her interest to less than 5% of the outstanding value of the stock of the foreign corporation; or
- A person who becomes a U.S. person while owning 5% or more in value of the outstanding stock of the foreign corporation.

For purposes of Category (3), a U.S. person is:

1. A citizen or resident of the United States,
2. A domestic partnership,
3. A domestic corporation, and
4. An estate or trust that is not a foreign estate or trust defined in section 7701(a)(31).

See Regulations section 1.6046-1(f)(3) for exceptions for corporations organized under the laws of certain possessions of the United States.

A U.S. person has acquired stock in a foreign corporation when that person has an unqualified right to receive the stock, even though the stock is not actually issued. See Regulations section 1.6046-1(f)(1) for more details.

See **Examples of Category (3) Filers** on page 15.

**Category (4) filer.**—This includes a U.S. person who had control of a foreign corporation for an uninterrupted period of at least 30 days during the annual accounting period of the foreign corporation.

**Exception.** A U.S. person is not required to file for a corporation defined in section 1504(d) that files a consolidated return for the tax year.

For purposes of Category (4), a U.S. person is:

1. A citizen or resident of the United States,
2. A nonresident alien for whom an election is in effect under section 6013(g) to be treated as a resident of the United States,
3. An individual for whom an election is in effect under section 6013(h), relating to nonresident aliens who become residents of the United States during the tax year and are married at the close of the tax

year to a citizen or resident of the United States,

4. A domestic partnership,
5. A domestic corporation, and
6. An estate or trust that is not a foreign estate or trust defined in section 7701(a)(31).

However, see Regulations section 1.6038-2(d) for exceptions for corporations organized under the laws of certain possessions of the United States.

A U.S. person has control of a foreign corporation if at any time during that person's tax year it owns (1) stock possessing more than 50% of the total combined voting power of all classes of stock entitled to vote, or (2) more than 50% of the total value of shares of all classes of stock of the foreign corporation.

A person in control of a corporation that, in turn, owns more than 50% of the combined voting power, or the value, of all classes of stock of another corporation is also treated as being in control of such other corporation.

**Example.** Corporation A owns 51% of the voting stock in Corporation B. Corporation B owns 51% of the voting stock in Corporation C. Corporation C owns 51% of the voting stock in Corporation D. Therefore, Corporation D is controlled by Corporation A.

For more details on "control," see section 6038(e)(1) and Regulations sections 1.6038-2(b) and (c).

**Category (5) filer.**—This includes a U.S. shareholder who owns stock in a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during any tax year of the foreign corporation, and who owned that stock on the last day of that year.

For purposes of Category (5), a U.S. shareholder is a U.S. person who:

- Owns (either directly, indirectly, or constructively, within the meaning of sections 958(a) and (b)) 10% or more of the total combined voting power of all classes of voting stock of a CFC; or
- Owns (either directly or indirectly, within the meaning of section 958(a)) any stock of a CFC that is also a captive insurance company (as defined in sections 953(c)(1)(B) and 957(b)).

For purposes of Category (5), a U.S. person is:

1. A citizen or resident of the United States,
2. A domestic partnership,
3. A domestic corporation, and
4. An estate or trust that is not a foreign estate or trust defined in section 7701(a)(31).

See section 957(c) for exceptions for corporations organized under the laws of certain possessions of the United States.

A **CFC** is a foreign corporation that has U.S. shareholders that own (either directly, indirectly, or constructively, within the meaning of sections 958(a) and (b)) on any

day of the tax year of the foreign corporation, more than:

1. 50% of the total combined voting power of all classes of its voting stock, or
2. 50% of the total value of the stock of the corporation.

## When and Where To File

Form 5471 is due when your income tax return is due, including extensions. File two copies of the form and required schedules. Attach one copy to your income tax return. Send the other copy to the Internal Revenue Service Center, Philadelphia, PA 19255.

## Penalties

**Failure to file information required by section 6038 and the related regulations (Form 5471 and Schedule M).**—Any person who fails to file or report all of the information requested will lose a portion of the foreign taxes available for credit under sections 901, 902, and 960. The reduction is 10% of the taxes available for credit for failure to submit the information when required. Furthermore, if the failure continues for 90 days or more after notice of the failure by the IRS, an additional 5% reduction is made for each 3-month period, or fraction thereof, during which the failure continues after the 90-day period has expired. See section 6038(c)(2) for limits on the amount of this penalty.

Also, a \$1,000 penalty is imposed for each annual accounting period of each foreign corporation for failure to furnish any information described in Regulations sections 1.6038-2(f) and (g) (within the time prescribed by Regulations section 1.6038-2(i)). Furthermore, if the required information is not filed within 90 days after the IRS has mailed a notice of the failure to the U.S. person, an additional \$1,000 penalty (per foreign corporation) is charged for each 30-day period, or fraction thereof, during which the failure continues after the 90-day period has expired. The additional penalty is limited to a maximum of \$24,000 for each failure. See section 6038(c)(3) and Regulations section 1.6038-2(k)(2)(vi) for rules coordinating these penalties.

Criminal penalties under sections 7203, 7206, and 7207 may apply for failure to file or for filing false or fraudulent information.

**Failure to file information required by sections 6035 and 6046 and the related regulations (Form 5471 and Schedules N and O).**—Any person who fails to file or report all of the information requested may be subject to a \$1,000 penalty for each such failure for each reportable transaction (section 6679(a)). Furthermore, criminal penalties under sections 7203, 7206, and 7207 may apply for failure to file or for filing false or fraudulent information.

**Note:** Any person required to file Form 5471 and Schedule J, M, N, or O who agrees to have another person file the form and schedule for him or her may be subject to the above penalties if the other person does not file a correct and proper form and schedule.

## Electronic Filing of Form 5471

Form 5471 and the related Schedules J, M, N, and O can be filed by magnetic media (magnetic tapes, floppy diskettes) or electronically (via modem to modem). Approval must be received from the IRS prior to filing. The reporting agent can request approval by submitting an application, **Form 9041**, Application for Electronic/Magnetic Media Filing of Business and Employee Benefit Plan Returns (this form can be obtained by calling 1-800-829-6945). The application should be mailed to: **Internal Revenue Service**, Philadelphia Service Center, Magnetic Media Office, D.P. 115, 11601 Roosevelt Blvd., Philadelphia, PA 19154. The application can be submitted year round.

If unable to obtain Form 9041, a letter of application requesting approval can be submitted. The request should include the following:

- Organization name, address, and identification number;
- Name and title of person to contact;
- Telephone number and best time to call;
- Expected return volume; and
- Method of magnetic media, and whether the software will be developed or modified for commercial use.

## Computer-Generated Form 5471 and Schedules

Computer-generated printouts of Form 5471 and its schedules may be filed. Generally, all computer-generated forms must receive prior approval each year from the IRS. Be sure to attach the approval letter to Form 5471. Please submit all requests for approval to: Internal Revenue Service, Attention: Substitute Forms Program, PC:FP:FS, 1111 Constitution Avenue, NW, Room 2712, Washington, DC 20224.

Every year, the IRS issues a Revenue Procedure to provide guidance for filers of computer-generated forms. In addition, every year the IRS issues **Pub. 1167**, Substitute Printed, Computer-Prepared, and Computer-Generated Tax Forms and Schedules, which reprints the most recent applicable Revenue Procedure. At the time these instructions went to print, Pub. 1167 could be ordered by calling 1-800-829-3676.

## Dormant Foreign Corporations

Rev. Proc. 92-70, 1992-2 C.B. 435, provides a summary filing procedure for filing Form 5471 for a dormant foreign corporation (defined in Sec. 3 of the Rev. Proc.). If the filer elects the summary procedure, only page 1 of Form 5471 is completed for each dormant foreign corporation as follows:

1. Write "Filed Pursuant To Rev. Proc. 92-70 for Dormant Foreign Corporations" across the top margin.

2. Complete filer items such as:
  - Name and address;
  - Identifying number (Item A);
  - Filing category (Item B);
  - Stock ownership percentage (Item C); and
  - Tax year.

3. Complete the following corporate items:

- The dormant foreign corporation's annual accounting period (within the meaning of section 6038(e)(2)) (below the title of the form);
- Name and address (Item 1a);
- Employer identification number (EIN), if any (Item 1b);
- Country of incorporation (Item 1c); and
- Date of incorporation (Item 1e).

File page 1 in duplicate with each filer's regularly filed income tax return. See **When and Where To File**. Also, see Rev. Proc. 92-70 for more details.

## Treaty-Based Return Positions

U.S. persons that adopt a return position that any treaty of the United States (including, but not limited to, an income tax treaty, an estate and gift tax treaty, or a friendship, commerce, and navigation treaty) overrides or modifies any provision of the Internal Revenue Code and causes (or potentially causes) a reduction of any tax incurred at any time, generally must disclose that return position on **Form 8833**, Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b).

Failure to make such a report may result in a \$1,000 penalty (\$10,000 in the case of a C corporation) (see section 6712).

## Specific Instructions

**Important.** Fill in all applicable lines and sections. All information reported must be in the English language. If the information required in a given section exceeds the space provided within that section, **do not** write "see attached" in the section and **do not** attach all of the information on additional sheets. Instead, complete all entry spaces in the section and attach the remaining information on additional sheets. The additional sheets must conform with the IRS version of that section.

### Annual Accounting Period

Enter, in the space provided below the title of Form 5471, the annual accounting period of the foreign corporation for which you are furnishing information. Except for information contained on Schedule O, report information for the tax year of the foreign corporation that ends with or within your tax year. When filing Schedule O, report acquisitions, dispositions, and organizations or reorganizations that occurred during your tax year.

**Specified Foreign Corporations.**—For a specified foreign corporation, the annual accounting period is generally required to

be the tax year of the corporation's majority U.S. shareholder. See section 898(c) for details.

A specified foreign corporation is any foreign corporation: **(1)** that is treated as a CFC under subpart F or that is a foreign personal holding company; and **(2)** that meets the more than 50% U.S. ownership requirements of section 898(b)(2).

If you are preparing Form 5471 for a specified foreign corporation, see Rev. Proc. 90-26, 1990-1 C.B. 512, for wording that must be entered in the upper left corner on page 1 of Form 5471. This wording pertains to whether the corporation made an election under section 898(c)(1)(B) and whether the corporation changed its tax year to conform to the tax year required by section 898.

**Note:** A specified foreign corporation may elect to change its required annual accounting period back to the taxable year it used immediately before conforming to the tax year required by section 898. This is applicable for returns due (including extensions) and timely filed after March 14, 1995, but no later than March 14, 1997. For more details, see Notice 95-13, 1995-15 I.R.B. 21.

### Name Change

If either the name of the person filing this return or the corporation whose activities are being reported has changed since the last time information was reported, attach a statement that explains the change and shows the prior name.

### Item A

The identifying number of an individual is his or her social security number. The identifying number of all others is their EIN. If a U.S. corporation that owns stock in a foreign corporation is a member of a consolidated group, list the common parent as the person filing the return and enter its EIN in Item A. Identify the direct owner in Item D.

### Item C

Enter the total percentage of the voting stock of the foreign corporation you owned directly, indirectly, or constructively at the end of the corporation's annual accounting period.

### Item D—Person(s) On Whose Behalf This Information Return Is Filed

One person may file Form 5471 and the applicable schedules for other persons who have the same filing requirements. For example, if you and one or more other persons are required to furnish information for the same foreign corporation for the same period, a joint information return that contains the required information may be filed with your income tax return or with the income tax return of any one of the other persons. However, for Category (3) filers, the required information may only be filed by another person having an equal or

greater interest (measured in terms of value of stock of the foreign corporation).

The person that files the required information for other persons must complete Item D. In addition, a separate Schedule I must be filed for each person described in Category 5.

**Other persons for whom required information is filed.—**

1. A U.S. citizen or resident described in Category (1) that is a 10% shareholder that does not own 10% or more in value of the outstanding stock directly but is required to file Form 5471 solely by attribution of another U.S. person's stock ownership does not have to file if the direct owner is an individual who furnishes all the information required.

2. A U.S. officer or director described in Category (2) does not have to file Form 5471 if:

a. Immediately after a reportable stock acquisition, three or fewer U.S. persons own 95% or more in value of the outstanding stock of the foreign corporation and the U.S. person making such acquisition files a return for such acquisition under Category (3), **or**

b. The U.S. person(s) for which such U.S. officer or director is required to file Form 5471 does not directly own an interest in the foreign corporation and is required to furnish the information solely because of attribution of stock ownership from a U.S. person under Regulations section 1.6046-1(i) and the person from whom the stock ownership is attributed furnishes all of the information required.

3. A U.S. person described in Category (3) does not have to file Form 5471 if that person does not directly own an interest in the foreign corporation and is required to furnish the information solely because of attribution of stock ownership from another U.S. person under Regulations section 1.6046-1(i) and the person from whom the stock ownership is attributed furnishes all of the information required.

4. A U.S. person described in Category (4) that does not directly own an interest in the foreign corporation and must file Form 5471 solely because of the attribution of stock ownership rules of Regulations section 1.6038-2(c) does not have to file if the person from whom the stock ownership is attributed files all the information required.

5. A U.S. person described in Category (5) may file a joint Form 5471 with another U.S. person described in either Category (4) or Category (5) according to Regulations sections 1.6038-2(j)(1) and (3).

**Filing requirements.—** Except for members of the filer's consolidated return group, all persons identified in Item D must attach a statement to their income tax returns that: **(a)** indicates that their filing requirements have been or will be satisfied, **(b)** lists the name, address, and identifying number of the return with which the information was or will be filed, and **(c)** identifies the IRS Service Center where the return was or will be filed.

## Currency Translation

Enter the foreign corporation's functional currency in the space indicated above items 1a and 1b on page 1 of the form. Regulations sections 1.6038-2(h) and 1.6046-1(g) require that certain amounts be reported in U.S. dollars and/or in the foreign corporation's functional currency. The specific instructions for the affected schedules state these requirements, including special rules for a foreign corporation that uses the U.S. dollar approximate separate transactions method of accounting under Regulations section 1.985-3.

## Items 1f and 1g

See the last page of these instructions for a list of business code numbers and descriptions of principal business activities.

## Schedule B

Category (1), (3), and (4) filers must complete Schedule B for U.S. persons that owned (at any time during the annual accounting period), directly or indirectly through foreign entities, 5% or more in value of any class of the corporation's outstanding stock.

**Column (e).**—Use column (e) to report the shareholder's allocable percentage of the foreign corporation's subpart F income or, for a foreign personal holding company, foreign personal holding company income.

## Schedule C

Schedule C requires an income statement prepared in functional currency in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Each line item on Schedule C must also be reported in U.S. dollars translated from functional currency in accordance with U.S. GAAP translation rules. If the foreign corporation uses the U.S. dollar approximate separate transactions method of accounting (DASTM) under Regulations section 1.985-3, the functional currency column should reflect local hyperinflationary currency amounts computed in accordance with U.S. GAAP, and the U.S. dollar column should reflect such amounts translated into dollars under U.S. GAAP translation rules. Differences between this U.S. dollar GAAP column and the U.S. dollar income or loss figured for tax purposes under Regulations section 1.985-3(c) should be accounted for on Schedule H. See the instructions for Schedule H.

**Line 19.**—The terms "extraordinary items" and "prior period adjustments" have the same meaning given to them by U.S. GAAP (see Opinion No. 30 of the Accounting Principles Board and Statement No. 16 of the Financial Accounting Standards Board).

**Line 20.**—Enter the income, war profits, and excess profits taxes deducted in accordance with U.S. GAAP.

**Note:** Differences between this functional currency amount and the amount of taxes that reduce U.S. E&P should be accounted for on line 2g of Schedule H.

## Schedule E

List income, war profits, and excess profits taxes paid or accrued to the United States and to any foreign country or U.S. possession for the annual accounting period. Report these amounts in column (b) in the local currency in which the taxes are payable. Translate these amounts into U.S. dollars at the exchange rate as of the time the taxes were paid (or, if unpaid, at the year-end rate). Identify the exchange rate used in column (c) and report the translated dollar amount in column (d).

## Schedule F

Schedule F generally requires a balance sheet prepared and translated into U.S. dollars in accordance with U.S. GAAP.

**Exception.** If the foreign corporation uses DASTM, Schedule F should reflect the tax balance sheet prepared and translated into U.S. dollars according to Regulations section 1.985-3(d), and not a U.S. GAAP balance sheet.

## Schedule H

Use Schedule H to report the foreign corporation's current E&P figured in functional currency for U.S. tax purposes.

**Special rules for DASTM.**—If the foreign corporation uses DASTM, enter on line 1 the dollar GAAP income or (loss) from line 21 of Schedule C, and use Schedule H to reflect adjustments made in figuring income or loss in dollars for tax purposes. DASTM gain or loss figured under Regulations section 1.985-3(d) should be reported on line 5b. Enter the sum of lines 5a and 5b on both lines 5c and 5d.

**Lines 2a through 2h.**—Certain adjustments (required by Regulations sections 1.964-1(b) and (c)) must be made to the foreign corporation's line 1 net book income or (loss) to determine its E&P. These adjustments may include both positive and negative adjustments to conform the foreign book income to U.S. GAAP and to U.S. tax accounting principles. If the foreign corporation's books are maintained in functional currency in accordance with U.S. GAAP, enter on line 1 the functional currency GAAP income or (loss) from line 21 of Schedule C, rather than starting with foreign book income, and show GAAP-to-tax adjustments on lines 2a through 2h.

**Lines 2b and 2c.**—Generally, depreciation, depletion, and amortization allowances must be based on the historical cost of the underlying asset, and depreciation must be figured according to section 167 (or, if 20% or more of the foreign corporation's

gross income is from U.S. sources, on a straight line basis according to Regulations section 1.312-15).

**Line 2f.**—Inventories must be taken into account according to the rules of sections 471 (incorporating the provisions of section 263A) and 472 and the related regulations.

**Line 2g.**—See the instructions for Schedule C, line 20.

**Line 2h.**—Enter the net amount of any additional adjustments not included on lines 2a through 2g. List these additional adjustments on a separate schedule. Attach this separate schedule to Form 5471.

**Line 5b.**—DASTM gain or (loss), reflecting unrealized exchange gain or loss, should be reported on line 5b only for foreign corporations that use DASTM.

**Line 5d.**—Enter the line 5c functional currency number translated into U.S. dollars at the weighted average exchange rate as defined in Regulations section 1.989(b)-1. Specify the exchange rate used. If the foreign corporation uses DASTM, enter on line 5d the same amount entered on line 5c.

**Blocked income.**—The E&P of the foreign corporation, as reflected on Schedule H, must not be reduced by all or any part of such E&P that could not have been distributed by the foreign corporation due to currency or other restrictions or limitations imposed under the laws of any foreign country.

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## Schedule I

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Use Schedule I to report in U.S. dollars the U.S. shareholder's pro rata share of income from the foreign corporation reportable under subpart F and other income realized from a corporate distribution.

### Lines 1 through 4

**Subpart F income.**—Generally, the income of a foreign corporation with U.S. shareholders is not taxed to those U.S. shareholders until the income is repatriated to the United States (e.g., through the payment of dividends to the U.S. shareholders or in the form of gain on the disposition of the U.S. shareholders' stock in the foreign corporation). However, this deferral of U.S. tax is not available to U.S. shareholders of CFCs with certain types of income, including subpart F income. See sections 951 and 952.

Generally, the subpart F income of a CFC includes:

- Adjusted net foreign base company income (lines 1 through 21 of Worksheet A);
- Adjusted net insurance income and adjusted net related person insurance income (lines 22 and 23 of Worksheet A);
- International boycott income (line 24 of Worksheet A);
- Illegal bribes, kickbacks, and other payments (line 25 of Worksheet A); and

- Income from a country described in section 952(a)(5) (line 26 of Worksheet A).

Certain CFC investments that may make earnings ineligible for deferral include:

- Earnings invested in U.S. property (Worksheet B);
- Amounts withdrawn from qualified investments in less developed countries and amounts withdrawn from qualified investments in foreign base company shipping operations (Worksheet C);
- Amounts withdrawn from investment in export trade assets (Worksheet D); and
- Earnings invested in excess passive assets (Worksheet E).

In addition, if the subpart F income of any CFC for any tax year was reduced because of the current E&P limitation (see the instructions for line 31 of Worksheet A), any excess of the E&P of the CFC for any subsequent tax year over the subpart F income of the CFC for the tax year must be recharacterized as subpart F income.

### Line 5

Complete Worksheet E. Enter on line 5 of Schedule I the amount from line 21 of Worksheet E. This amount is the shareholder's pro rata share of the CFC's earnings invested in excess passive assets, computed according to section 956A and translated into U.S. dollars at the year-end spot rate (as provided in section 989(b)).

### Line 6

Enter the factoring income (as defined in section 864(d)(1)) if no subpart F income is reported on line 1a, Worksheet A, because of the operation of the de minimis rule (see lines 1a, 10, and 12 of Worksheet A and the related instructions).

### Line 7

Add lines 1 through 6. Enter the result here and on your income tax return. If you are preparing Form 5471 for a corporate U.S. shareholder, enter the result on Schedule C, Form 1120, or on the comparable line of other corporate income tax returns. If you are preparing Form 5471 for a noncorporate U.S. shareholder, enter the result on Schedule B, Form 1040, or on the comparable line of other noncorporate income tax returns.

### Line 8

Enter the dividends you received from the foreign corporation that have not been previously taxed under subpart F in the current year or in any prior year.

### Line 9

If previously taxed E&P described in section 959(a) or (b) was distributed, enter the amount of foreign currency gain or (loss) on the distribution, computed under section 986(c). See Notice 88-71, 1988-2 C.B. 374, for rules for computing section 986(c) gain or (loss). If you are preparing Form 5471 for a corporate U.S. shareholder, include the gain or (loss) as "other income" on Form 1120, or on the comparable line of other corporate income

tax returns. If you are preparing Form 5471 for a noncorporate U.S. shareholder, include the result as "other income" on Form 1040, or on the comparable line of other noncorporate income tax returns.

## Worksheet A

**Line 1a.**—Enter on this line: (a) dividend income; (b) interest income (except any interest from conducting a banking business and that is "export financing interest" (as defined in section 904(d)(2)(G))); (c) income from rents and royalties (except rents and royalties from actively conducting a trade or business and that are received from a person other than a "related person" (as defined in section 954(d)(3))); and (d) income from annuities. Do not include certain income received from related persons (described in section 954(c)(3)). Interest income includes factoring income arising when a person acquires a trade or service receivable (directly or indirectly) from a related person. The income is treated as interest on a loan to the obligor under section 864(d)(1) and is generally not eligible for the de minimis, export financing, and related party exceptions to the inclusion of subpart F income. Furthermore, a trade or service receivable acquired or treated as acquired by a CFC from a related U.S. person is considered an investment in U.S. property for purposes of section 956 (Worksheet B) if the obligor is a U.S. person.

**Line 1b.**—Enter the excess of gains over losses from the sale or exchange of: (a) property that produces the type of income reportable on line 1a; (b) an interest in a trust, partnership, or REMIC; or (c) property that does not produce any income.

Do **not** include on this line the following: (a) for any regular dealer in property, gains and losses from the sale or exchange of any such "dealer property" or gains and losses from bona fide hedging transactions reasonably necessary to be a dealer in such property, and (b) gains and losses from the sale or exchange of any property that, in the hands of the CFC, is property described in section 1221(1).

**Line 1c.**—Enter the excess of gains over losses from transactions (including futures, forward, and similar transactions) in any commodities. See section 954(c)(1)(C) for exceptions.

**Line 1d.**—Enter the excess of foreign currency gains over foreign currency losses (see section 988(b) for definitions), except for transactions directly related to the business needs of a CFC.

**Line 1e.**—Enter any income equivalent to interest, including income from commitment fees (or similar amounts) for loans actually made.

**Lines 10 and 12. De minimis rule.**—If the sum of foreign base company income (determined without regard to the deductions of section 954(b)(5)) and the gross insurance income (as defined in section 954(b)(3)(C)) (line 9) for the tax year is less than the smaller of 5% of gross income for income tax purposes (line 10)

or \$1 million, no portion of the gross income for the tax year is treated as foreign base company income or insurance income. In this case, enter zero on line 12 and skip lines 13 through 23. Otherwise, go on to line 13.

**Lines 11, 13, and 14. Full inclusion rule.**—If the sum of the foreign base company income (determined without regard to the deductions of section 954(b)(5)) and the gross insurance income (line 9) for the tax year exceeds 70% of gross income (for income tax purposes) (line 11), the entire gross income for the tax year must (subject to the exception for certain income subject to high foreign taxes (described below), the section 952(b) exclusion, and the deductions to be taken into account under section 954(b)(5)) be treated as foreign base company income or insurance income (whichever is appropriate). In this case, enter total gross income (for income tax purposes) on line 13. Otherwise, enter zero.

**Lines 15g, 16d, 17d, 18d, 20d, 22d, and 23d. Exception for certain income subject to high foreign taxes.**—Foreign base company income and insurance income does not include any item of income received by a CFC if the taxpayer establishes that such income was subject to an effective rate of income tax imposed by a foreign country that is greater than 90% of the maximum rate of tax specified in section 11. This rule does not apply to foreign base company oil-related income as described in section 954(a)(5). See Regulations section 1.954-1T(d) for more information.

**Line 22. Adjusted net insurance income.**—In determining a shareholder's pro rata share of the subpart F income of a CFC, insurance income is any income that:

- Is attributable to the issuing (or reinsuring) of any insurance or annuity contract: **(1)** for property in, liability from an activity in, or for the lives or health of residents of a country other than the country under the laws of which the CFC is created or organized, or **(2)** for risks not described in **(1)** above, resulting from any arrangement in which another corporation receives a substantially equal amount of premiums or other consideration for issuing (or reinsuring) a contract described in **(1)** above; and
- Would (subject to the modifications provided in sections 953(b)(1) and 953(b)(2)) be taxed under subchapter L (insurance company tax) if such income were income of a domestic insurance company.

**Line 23. Adjusted net related person insurance income.**—In determining a shareholder's pro rata share of the subpart F income of a CFC, related person insurance income is any insurance income (within the meaning of section 953(a))

attributable to a policy of insurance or reinsurance for which the person insured (directly or indirectly) is a U.S. shareholder (as defined in section 953(c)(1)(A)) in a CFC, or a related person (as defined in section 953(c)(6)) to such a shareholder. In such case, the pro rata share referred to above is to be determined under the rules of section 953(c)(5).

**Exceptions.** The above definition does not apply to any foreign corporation if:

- At all times during the foreign corporation's tax year, less than 20% of the total combined voting power of all classes of stock of the corporation entitled to vote, and less than 20% of the total value of the corporation, is owned (directly or indirectly under the principles of section 883(c)(4)) by persons who are (directly or indirectly) insured under any policy of insurance or reinsurance issued by the corporation or who are related persons to any such person;
- The related person insurance income (determined on a gross basis) of the corporation for the tax year is less than 20% of its insurance income for the tax year determined regardless of the provisions of section 953(a)(1) that limit insurance income to income from countries other than the country in which the corporation was created or organized; or
- The corporation: **(1)** elects to treat its related person insurance income for the tax year as income effectively connected with the conduct of a trade or business in the United States; **(2)** elects to waive all treaty benefits (other than from section 884) for related person insurance income; and **(3)** meets any requirement the IRS may prescribe to ensure that any tax on such income is paid. This election will not be effective if the corporation was a disqualified corporation (as defined in section 953(c)(3)(E)) for the tax year for which the election was made or for any prior tax year beginning after 1986. See section 953(c)(3)(D) for special rules for this election.

**Mutual life insurance companies.**—The related person insurance income rules also apply to mutual life insurance companies under regulations prescribed by the Secretary. For these purposes, policyholders must be treated as shareholders.

**Line 24. International boycott income.**—If a CFC or a member of a controlled group (within the meaning of section 993(a)(3)) that includes the CFC has operations in, or related to, a country (or with the government, a company, or a national of a country) that requires participation in or cooperation with an international boycott as a condition of doing business within such country or with the government, company, or national of that country, a portion of the income of the CFC is

included in subpart F income. The amount included is determined by multiplying the income of the CFC (other than income included under section 951 and U.S. source effectively connected business income described in section 952(b)) by the international boycott factor. The international boycott factor is a fraction determined on Schedule A (Form 5713).

**Special rule.**—If the shareholder of a CFC can clearly demonstrate that the income earned for the tax year is from specific operations, then, instead of applying the international boycott factor, the addition to subpart F income is the amount specifically from the operations in which there was participation in or cooperation with an international boycott. See Schedule B (Form 5713).

**Line 25. Illegal bribes, kickbacks, and other payments.**—Under section 952(a)(4), the sum of the amounts of any illegal bribes, kickbacks, or other payments (within the meaning of section 162(c)) paid by or on behalf of the corporation, directly or indirectly, to an official, employee, or agent of a government is considered subpart F income.

**Line 26. Income from a country described in section 952(a)(5).**—The income of a CFC from any country described in section 901(j) will be deemed to be income to the U.S. shareholders of such CFC. As of the date these instructions were revised, the countries described in section 901(j) included: Cuba, Iran, Iraq, Libya, North Korea, Sudan, Syria, and Vietnam.

**Line 28. Exclusion of U.S. income.**—Subpart F income does not include any U.S. source income (which, for these purposes, includes all carrying charges and all interest, dividends, royalties, and other investment income received or accrued by a FSC) that is effectively connected with a CFC's conduct of a trade or business in the United States unless that item is exempt from taxation (or is subject to a reduced rate of tax) pursuant to a treaty obligation of the United States.

**Line 31. E&P limitation.**—The subpart F income of a CFC is limited to its current year E&P, computed under the special rule of section 952(c)(3).

The amount included in the gross income of a U.S. shareholder of a CFC under section 951(a)(1)(A)(i) for any tax year and attributable to a qualified activity must be reduced by the shareholder's pro rata share of any qualified deficit (see section 952(c)(1)(B)).

Also, see section 952(c)(1)(C) for certain current year deficits of a member of the same chain of corporations that may be considered in determining subpart F income.

**Worksheet A—Foreign Base Company Income and Insurance Income and Summary of U.S. Shareholder’s Pro Rata Share of Subpart F Income of a CFC** (see instructions)

Enter the amounts on lines 1a through 40a in functional currency.

<b>1</b>	<b>Gross foreign personal holding company income:</b>			
a	Dividends, interest, royalties, rents, and annuities (section 954(c)(1)(A) (excluding amounts described in sections 954(c)(2) and (3))) . . . . .	<b>1a</b>		
b	Excess of gains over losses from certain property transactions (section 954(c)(1)(B)) . . . . .	<b>1b</b>		
c	Excess of gains over losses from commodity transactions (section 954(c)(1)(C)) . . . . .	<b>1c</b>		
d	Excess of foreign currency gains over foreign currency losses (section 954(c)(1)(D)) . . . . .	<b>1d</b>		
e	Income equivalent to interest (section 954(c)(1)(E)) . . . . .	<b>1e</b>		
<b>2</b>	Gross foreign personal holding company income. Add lines 1a through 1e . . . . .			<b>2</b>
<b>3</b>	Gross foreign base company sales income (see section 954(d)) . . . . .			<b>3</b>
<b>4</b>	Gross foreign base company services income (see section 954(e)) . . . . .			<b>4</b>
<b>5</b>	Gross foreign base company shipping income (see section 954(f)) after application of sections 954(b)(6) and (7). . . . .			<b>5</b>
<b>6</b>	Gross foreign base company oil-related income (see section 954(g)) after application of section 954(b)(8)			<b>6</b>
<b>7</b>	Gross foreign base company income. Add lines 2 through 6 . . . . .			<b>7</b>
<b>8</b>	Gross insurance income (see sections 953 and 954(b)(3)(C) and the instructions for lines 22 and 23)			<b>8</b>
<b>9</b>	Gross foreign base company income and gross insurance income. Add lines 7 and 8 . . . . .			<b>9</b>
<b>10</b>	Enter 5% of total gross income (as computed for income tax purposes) . . . . .			<b>10</b>
<b>11</b>	Enter 70% of total gross income (as computed for income tax purposes) . . . . .			<b>11</b>
<b>12</b>	If line 9 is less than line 10 and less than \$1 million, enter -0- on this line and skip lines 13 through 23			<b>12</b>
<b>13</b>	If line 9 is more than line 11, enter total gross income (as computed for income tax purposes)			<b>13</b>
<b>14</b>	<b>Total adjusted gross foreign base company income and insurance income</b> (enter the greater of line 9 or line 13) . . . . .			<b>14</b>
<b>15</b>	<b>Adjusted net foreign personal holding company income:</b>			
a	Enter amount from line 2 . . . . .	<b>15a</b>		
b	Expenses directly related to amount on line 2 . . . . .	<b>15b</b>		
c	Subtract line 15b from line 15a . . . . .	<b>15c</b>		
d	Related person interest expense (see section 954(b)(5)) . . . . .	<b>15d</b>		
e	Other expenses allocated and apportioned to the amount on line 2 under section 954(b)(5) . . . . .	<b>15e</b>		
f	Net foreign personal holding company income. Subtract the sum of lines 15d and 15e from line 15c . . . . .	<b>15f</b>		
g	Net foreign personal holding company income excluded under high-tax exception . . . . .	<b>15g</b>		
h	Subtract line 15g from line 15f . . . . .			<b>15h</b>
<b>16</b>	<b>Adjusted net foreign base company sales income:</b>			
a	Enter amount from line 3 . . . . .	<b>16a</b>		
b	Expenses allocated and apportioned to the amount on line 3 under section 954(b)(5) . . . . .	<b>16b</b>		
c	Net foreign base company sales income. Subtract line 16b from line 16a	<b>16c</b>		
d	Net foreign base company sales income excluded under high-tax exception	<b>16d</b>		
e	Subtract line 16d from line 16c. . . . .			<b>16e</b>
<b>17</b>	<b>Adjusted net foreign base company services income:</b>			
a	Enter amount from line 4 . . . . .	<b>17a</b>		
b	Expenses allocated and apportioned to line 4 under section 954(b)(5)	<b>17b</b>		
c	Net foreign base company services income. Subtract line 17b from line 17a	<b>17c</b>		
d	Net foreign base company services income excluded under high-tax exception	<b>17d</b>		
e	Subtract line 17d from line 17c. . . . .			<b>17e</b>
<b>18</b>	<b>Adjusted net foreign base company shipping income:</b>			
a	Enter amount from line 5 . . . . .	<b>18a</b>		
b	Expenses allocated and apportioned to line 5 under section 954(b)(5)	<b>18b</b>		
c	Net foreign base company shipping income. Subtract line 18b from line 18a	<b>18c</b>		
d	Net foreign base company shipping income excluded under high-tax exception	<b>18d</b>		
e	Subtract line 18d from line 18c. . . . .			<b>18e</b>



**Worksheet A** (continued) (See instructions.)

<b>19</b>	<b>Adjusted net foreign base company oil-related income:</b>		
a	Enter amount from line 6 . . . . .	<b>19a</b>	
b	Expenses allocated and apportioned to line 6 under section 954(b)(5) . . . . .	<b>19b</b>	
c	Subtract line 19b from line 19a . . . . .		<b>19c</b>
<b>20</b>	<b>Adjusted net full inclusion foreign base company income:</b>		
a	Enter the excess, if any, of line 13 over line 9 . . . . .	<b>20a</b>	
b	Expenses allocated and apportioned under section 954(b)(5) . . . . .	<b>20b</b>	
c	Net full inclusion foreign base company income. Subtract line 20b from line 20a . . . . .	<b>20c</b>	
d	Net full inclusion foreign base company income excluded under high-tax exception . . . . .	<b>20d</b>	
e	Subtract line 20d from line 20c . . . . .		<b>20e</b>
<b>21</b>	<b>Adjusted net foreign base company income.</b> Add lines 15h, 16e, 17e, 18e, 19c, and 20e . . . . .		<b>21</b>
<b>22</b>	<b>Adjusted net insurance income</b> (other than related person insurance income):		
a	Enter amount from line 8 (other than related person insurance income) . . . . .	<b>22a</b>	
b	Expenses allocated and apportioned to the amount from line 8 under section 953 . . . . .	<b>22b</b>	
c	Net insurance income. Subtract line 22b from line 22a . . . . .	<b>22c</b>	
d	Net insurance income excluded under high-tax exception . . . . .	<b>22d</b>	
e	Subtract line 22d from line 22c . . . . .		<b>22e</b>
<b>23</b>	<b>Adjusted net related person insurance income:</b>		
a	Enter amount from line 8 that is related person insurance income . . . . .	<b>23a</b>	
b	Expenses allocated and apportioned to related person insurance income under section 953 . . . . .	<b>23b</b>	
c	Net related person insurance income. Subtract line 23b from line 23a . . . . .	<b>23c</b>	
d	Net related person insurance income excluded under high-tax exception . . . . .	<b>23d</b>	
e	Subtract line 23d from line 23c . . . . .		<b>23e</b>
<b>24</b>	International boycott income (section 952(a)(3)) . . . . .		<b>24</b>
<b>25</b>	Illegal bribes, kickbacks, and other payments (section 952(a)(4)) . . . . .		<b>25</b>
<b>26</b>	Income from a country described in section 952(a)(5) . . . . .		<b>26</b>
<b>27</b>	Subpart F income before application of sections 952(b) and (c) and section 959(b). Add lines 21, 22e, 23e, and 24 through 26 . . . . .		<b>27</b>
<b>28</b>	Enter portion of line 27 that is U.S. source income effectively connected with a U.S. trade or business (section 952(b)) . . . . .	<b>28</b>	
<b>29</b>	Exclusions under section 959(b) . . . . .	<b>29</b>	
<b>30</b>	Total subpart F income. Subtract the sum of lines 28 and 29 from line 27 . . . . .		<b>30</b>
<b>31</b>	Current E&P . . . . .		<b>31</b>
<b>32</b>	Enter the smaller of line 30 or line 31 . . . . .		<b>32</b>
<b>33</b>	Shareholder's pro rata share of line 32 . . . . .	<b>33</b>	
<b>34</b>	Shareholder's pro rata share of export trade income . . . . .	<b>34</b>	
<b>35</b>	Subtract line 34 from line 33 . . . . .	<b>35</b>	
<b>36</b>	Divide the number of days in the tax year that the corporation was a CFC by the number of days in the tax year and multiply the result by line 35 . . . . .	<b>36</b>	
<b>37</b>	Dividends paid to any other person with respect to your stock during the tax year . . . . .	<b>37</b>	
<b>38</b>	Divide the number of days in the tax year you did not own such stock by the number of days in the tax year and multiply the result by line 35 . . . . .	<b>38</b>	
<b>39</b>	Enter the smaller of line 37 or line 38 . . . . .	<b>39</b>	
<b>40a</b>	<b>Shareholder's pro rata share of subpart F income.</b> Subtract line 39 from line 36 . . . . .		<b>40a</b>
b	Translate the amount on line 40a from functional currency to U.S. dollars at the weighted average exchange rate (as defined in Regulations section 1.989(b)-1). Enter the result here and on line 1, Schedule I . . . . .		<b>40b</b>

**Worksheet B**

Under sections 951(a)(1)(B) and 956, U.S. shareholders are generally taxed on the amount of earnings that a CFC invests in U.S. property. Worksheet B is used by a U.S. shareholder to determine his or her share of the amount subject to tax.

Only earnings of a CFC that have not been distributed or otherwise previously taxed are subject to these rules. Thus, the amount of previously **untaxed** earnings limits the section 956 inclusion. A CFC's investment in U.S. property in excess of this limit will not be included in the taxable income of the CFC's U.S. shareholders.

Further, U.S. shareholders are only taxed on earnings invested in U.S. property to the extent the investments exceed the CFC's previously **taxed** earnings. The balances in the previously taxed accounts of prior section 956 inclusions (see section 959(c)(1)(A) and current or prior subpart F inclusions (see section 959(c)(2)) reduce what would otherwise be the current section 956 inclusion.

**Note:** *The previously taxed accounts should be adjusted to reflect any reclassification of subpart F inclusions that reduced prior section 956 or 956A*

*inclusions (see section 959(a)(2) and (3), Worksheet E, and Schedule J).*

Distributions are also taken into account before the section 956 inclusion is determined. Distributions generally are treated as coming first from (and thus reducing the balances of) the previously taxed accounts. Thus, the U.S. shareholders must **(1)** compute the current subpart F inclusion (potentially increasing that previously taxed account); **(2)** take into account current distributions (potentially reducing the previously taxed and untaxed accounts); and **(3)** compute the current section 956 inclusion (potentially increasing or reclassifying the previously taxed accounts).

Worksheet B applies for tax years of a CFC beginning after September 30, 1993, and to tax years of the U.S. shareholder in which or with which the tax year of the CFC ends. U.S. property is measured on a quarterly average basis. For purposes of this worksheet, the amount taken into account with respect to U.S. property is its adjusted basis for earnings and profits purposes, reduced by any liability the property is subject to. See sections 956(c) and (d) for the definition of U.S. property.

The amount of U.S. property held (directly or indirectly) by the CFC does not include any item that was acquired by the foreign corporation before it became a CFC, except for the property acquired before the foreign corporation became a CFC that exceeds the applicable earnings (as defined in sections 956(b) and 956A(b)) accumulated during periods before it became a CFC.

If the foreign corporation ceases to be a CFC during the tax year: **(1)** the determination of the U.S. shareholder's pro rata share will be made based upon the stock owned (within the meaning of section 958(a)) by the U.S. shareholder on the last day on which the foreign corporation is a CFC; **(2)** the CFC's U.S. property for the taxable year will be determined only by taking into account quarters ending on or before such last day (and investments in U.S. property as of the close of subsequent quarters should be recorded as zero on line 1); and **(3)** in determining applicable earnings, current earnings and profits will include only earnings and profits that are allocable (on a pro rata basis) to the part of the year during which the foreign corporation is a CFC.

**Worksheet B—U.S. Shareholder's Pro Rata Share of Earnings of a CFC Invested in U.S. Property**

Enter the amounts on lines 1 through 16 in functional currency.

1	Amount of U.S. property (as defined in sections 956(c) and (d)) held (directly or indirectly) by the CFC as of the close of:		
	a The first quarter of the tax year . . . . .	1a	
	b The second quarter of the tax year . . . . .	1b	
	c The third quarter of the tax year . . . . .	1c	
	d The fourth quarter of the tax year . . . . .	1d	
2	Number of quarter-ends the foreign corporation was a CFC during the tax year . . . . .		2
3	Average amount of U.S. property held (directly or indirectly) by the CFC as of the close of each quarter of the tax year. (Add lines 1a through 1d. Divide this amount by the number on line 2.)		3
4	U.S. shareholder's pro rata share of the amount on line 3. . . . .		4
5	U.S. shareholder's earnings and profits described in section 959(c)(1)(A) after reductions (if any) for current year distributions . . . . .		5
6	Subtract line 5 from line 4 . . . . .		6
7	Applicable earnings:		
	a Current earnings and profits . . . . .	7a	
	b Line 7a plus accumulated earnings and profits . . . . .	7b	
8	Enter the greater of line 7a or line 7b . . . . .		8
9	Distributions made by the CFC during the tax year . . . . .		9
10	Subtract line 9 from line 8 . . . . .		10
11	Earnings and profits described in section 959(c)(1) . . . . .		11
12	Subtract line 11 from line 10 . . . . .		12
13	U.S. shareholder's pro rata share of the amount on line 12 . . . . .		13
14	U.S. shareholder's earnings invested in U.S. property. (Enter the smaller of line 6 or line 13) .		14
15	Amount on line 14 that is excluded from the U.S. shareholder's gross income under section 959(a)(2)		15
16	Subtract line 15 from line 14 . . . . .		16
17	Translate the amount on line 16 from functional currency to U.S. dollars at the year-end spot rate (as provided in section 989(b)). Enter the result here and on line 2 of Schedule I . . . . .		17

**Worksheet C—U.S. Shareholder’s Pro Rata Share of Previously Excluded Subpart F Income of a CFC Withdrawn From Qualified Investments in Less Developed Countries and From Qualified Investments in Foreign Base Company Shipping Operations**

Enter the amounts on lines 1 through 6a in functional currency.

1	Decrease in qualified investments in less developed countries (see Regulations section 1.955-1(b)(1)) and foreign base company shipping operations (see Regulations section 1.955A-1(b)(1)) . . . . .			<b>1</b>
2	Limitation (see Regulations section 1.955-1(b)(2)):			
	<b>a</b> Enter the sum of E&P for the tax year and E&P accumulated for prior tax years beginning after 1962 . . . . .	2a		
	<b>b</b> Enter the sum of amounts invested in less developed countries or foreign base company shipping operations and excluded from foreign base company income for all prior tax years, minus the sum of such amounts withdrawn for such years (see Regulations section 1.955-1(b)(2)(i)) . . . . .	2b		
3	Enter the smaller of line 2a or line 2b . . . . .			<b>3</b>
4	Previously excluded subpart F income withdrawn for the tax year (enter the smaller of line 1 or line 3) . . . . .			<b>4</b>
5	U.S. shareholder’s pro rata share of line 4 (see Regulations section 1.955-1(c)) . . . . .			<b>5</b>
6a	Divide the number of days in the tax year that the foreign corporation was a CFC by the number of days in the tax year and multiply the result by line 5 . . . . .			<b>6a</b>
	<b>b</b> Translate the amount on line 6a from functional currency to U.S. dollars at the weighted average exchange rate (as defined in Regulations section 1.989(b)-1). Enter the result here and on line 3, Schedule I . . . . .			<b>6b</b>

**Worksheet D—U.S. Shareholder’s Pro Rata Share of Previously Excluded Export Trade Income of a CFC Withdrawn From Investment in Export Trade Assets**

Enter the amounts on lines 1 through 7a in functional currency.

1	Decrease in investments of the CFC in export trade assets (see Regulations section 1.970-1(d)(3)) . . . . .			<b>1</b>
2	U.S. shareholder’s pro rata share of line 1 . . . . .			<b>2</b>
3	U.S. shareholder’s pro rata share of the sum of E&P of the CFC for the tax year and E&P accumulated for prior tax years beginning after 1962 (see Regulations section 1.970-1(c)(2)(ii)) . . . . .			<b>3</b>
4	Limitation under section 970(b) (see Regulations section 1.970-1(c)(2)(i)):			
	<b>a</b> U.S. shareholder’s pro rata share of the sum of the amounts by which the CFC’s subpart F income for prior tax years was reduced under section 970(a) . . . . .	4a		
	<b>b</b> U.S. shareholder’s pro rata share of the sum of the amounts that were not included in subpart F income of the CFC for prior tax years because of Regulations section 1.972-1 . . . . .	4b		
	<b>c</b> Add lines 4a and 4b . . . . .	4c		
	<b>d</b> U.S. shareholder’s pro rata share of the sum of the amounts that were previously included in his or her gross income for prior tax years under section 951(a)(1)(A)(ii) because of section 970(b) . . . . .	4d		
5	Subtract line 4d from line 4c . . . . .			<b>5</b>
6	Enter the smallest of line 2, 3, or 5 . . . . .			<b>6</b>
7a	Divide the number of days in the tax year that the foreign corporation was a CFC by the number of days in the tax year and multiply the result by line 6 . . . . .			<b>7a</b>
	<b>b</b> Translate the amount on line 7a from functional currency to U.S. dollars at the weighted average exchange rate (as defined in Regulations section 1.989(b)-1). Enter the result here and on line 4, Schedule I . . . . .			<b>7b</b>

**Worksheet E**

Under sections 951(a)(1)(C) and 956A, U.S. shareholders are generally taxed on the amount of earnings that a CFC invests in excess passive assets. Worksheet E is used by a U.S. shareholder to determine his or her share of the amount subject to tax.

Only earnings accumulated in tax years of a CFC beginning after September 30, 1993 that have not been distributed or otherwise previously taxed are subject to these rules. Thus, the amount of previously **untaxed** earnings accumulated in post-September 30, 1993, years limits the section 956A inclusion. A CFC’s investment in excess passive assets in

excess of this limit will not be included in the taxable income of the CFC’s U.S. shareholders.

Further, U.S. shareholders are only taxed on earnings invested in excess passive assets to the extent the investments exceed the CFC’s previously **taxed** earnings. The balances in the previously taxed accounts of prior section 956A inclusions (see section 959(c)(1)(B) and current or prior subpart F inclusions arising in post-September 30, 1993, years (see section 959(c)(2))) reduce what would otherwise be the current section 956A inclusion.

**Note:** *The previously taxed accounts should be adjusted to reflect any reclassification of subpart F inclusions that*

*reduced current or prior section 956, or prior 956A, inclusions (see section 959(a)(2) and (3), Worksheet B, and Schedule J).*

The previously taxed and untaxed accounts must be adjusted for the application of section 956 before the application of section 956A (see section 956A(a)(2)). Distributions are also taken into account before the section 956A inclusion is determined. Distributions generally are treated as coming first from (and thus reducing the balances of) the previously taxed accounts. Thus, U.S. shareholders must: **(1)** compute the current subpart F inclusion (potentially increasing that previously taxed account); **(2)** take into account current distributions (potentially reducing the previously taxed and untaxed

**Worksheet E—U.S. Shareholder’s Pro Rata Share of the CFC’s Earnings Invested in Excess Passive Assets**

Enter the amounts on lines 1 through 20 in functional currency.

<b>1</b>	Amount of passive assets (defined in section 956A(c)(2)) held by the CFC as of the close of:		
<b>a</b>	The first quarter of the tax year . . . . .	<b>1a</b>	
<b>b</b>	The second quarter of the tax year . . . . .	<b>1b</b>	
<b>c</b>	The third quarter of the tax year . . . . .	<b>1c</b>	
<b>d</b>	The fourth quarter of the tax year . . . . .	<b>1d</b>	
<b>2</b>	Number of quarter-ends the foreign corporation was a CFC during the tax year . . . . .		<b>2</b>
<b>3</b>	Average amount of passive assets held by the CFC as of the close of each quarter of the tax year. (Add lines 1a through 1d. Divide this sum by the number on line 2.) . . . . .		<b>3</b>
<b>4</b>	Total assets held by the CFC as of the close of:		
<b>a</b>	The first quarter of the tax year. . . . .	<b>4a</b>	
<b>b</b>	The second quarter of the tax year . . . . .	<b>4b</b>	
<b>c</b>	The third quarter of the tax year . . . . .	<b>4c</b>	
<b>d</b>	The fourth quarter of the tax year . . . . .	<b>4d</b>	
<b>5</b>	Average total assets held by the CFC as of the close of each quarter of the tax year. (Add lines 4a through 4d. Divide this sum by the number on line 2.) . . . . .		<b>5</b>
<b>6</b>	Multiply line 5 by 25% . . . . .		<b>6</b>
<b>7</b>	Excess passive assets (subtract line 6 from line 3) . . . . .		<b>7</b>
<b>8</b>	U.S. shareholder’s pro rata share of the amount on line 7 . . . . .		<b>8</b>
<b>9</b>	U.S. shareholder’s earnings and profits described in section 959(c)(1)(B) after reductions (if any) for current year distributions. . . . .		<b>9</b>
<b>10</b>	Subtract line 9 from line 8 . . . . .		<b>10</b>
<b>11</b>	Applicable earnings:		
<b>a</b>	Current earnings and profits. . . . .	<b>11a</b>	
<b>b</b>	Line 11a plus accumulated earnings and profits . . . . .	<b>11b</b>	
<b>12</b>	Enter the greater of line 11a or line 11b. . . . .		<b>12</b>
<b>13</b>	Distributions made by the CFC during the tax year . . . . .		<b>13</b>
<b>14</b>	Subtract line 13 from line 12 . . . . .		<b>14</b>
<b>15</b>	Earnings and profits described in section 959(c)(1) accumulated in tax years beginning after September 30, 1993 (determined after application of section 951(a)(1)(B)) . . . . .		<b>15</b>
<b>16</b>	Subtract line 15 from line 14 . . . . .		<b>16</b>
<b>17</b>	U.S. shareholder’s pro rata share of the amount on line 16 . . . . .		<b>17</b>
<b>18</b>	U.S. shareholder’s share of earnings invested in excess passive assets (smaller of line 10 or line 17). . . . .		<b>18</b>
<b>19</b>	Amount of line 18 excluded from gross income under section 959(a)(3) . . . . .		<b>19</b>
<b>20</b>	Subtract line 19 from line 18 . . . . .		<b>20</b>
<b>21</b>	Translate the amount on line 20 from functional currency to U.S. dollars at the year-end spot rate (as provided in section 989(b)). Enter the result here and on line 5 of Schedule I . . . . .		<b>21</b>

accounts); **(3)** compute the current section 956 inclusion (potentially reclassifying the subpart F previously taxed account); and **(4)** compute the current 956A inclusion (potentially increasing or reclassifying the previously taxed accounts).

Worksheet E applies for tax years of a CFC beginning after September 30, 1993, and to tax years of the U.S. shareholder in which or with which the tax year of the CFC ends. Excess passive assets are measured on a quarterly average basis.

In determining excess passive assets, the amount taken into account for an asset is its adjusted basis as determined for purposes of computing earnings and profits. A passive asset generally is an asset that produces passive income, as defined for passive foreign investment company purposes (sections 1296 and 1297), but excludes assets that are U.S. property under section 956. The term “excess passive assets” means the excess (if any) of the quarterly average amount of

passive assets of the CFC, over 25 percent of the quarterly average amount of total assets of the CFC.

In determining the amount of excess passive assets of a CFC, all CFCs that are members of the same CFC group (defined in section 956A(d)(2)) are treated as one CFC. The amount of excess passive assets determined for that one CFC is allocated among the members of the CFC group in proportion to their respective amounts of applicable earnings.

If the foreign corporation ceases to be a CFC during the tax year: **(1)** the determination of the U.S. shareholder’s pro rata share will be made based on the stock owned (within the meaning of section 958(a)) by the U.S. shareholder on the last day on which the foreign corporation is a CFC; **(2)** the amount of the CFC’s excess passive assets for the tax year will be determined only by taking into account quarters ending on or before such last day (and passive and total assets as of the

close of subsequent quarters should be recorded as zero on lines 1 and 4); and **(3)** in determining applicable earnings, current earnings and profits will include only earnings and profits that are allocable (on a pro rata basis) to the part of the year during which the foreign corporation is a CFC.

**Schedule J**

Use Schedule J to report accumulated E&P in functional currency, computed under sections 964(a) and 986(b).

**Column (a)**

Use column (a) to report the opening balance, current year additions and subtractions, and the closing balance in the foreign corporation’s post-1986 undistributed earnings pool. Line 3 (E&P as of the close of the tax year, before actual or deemed distributions during the year) is

the denominator of the deemed-paid credit fraction under section 902(c)(1).

### Column (b)

Use column (b) to report the aggregate amount of the foreign corporation's pre-1987 section 964(a) E&P accumulated since 1962 and not previously distributed or deemed distributed. These amounts are figured in U.S. dollars using the rules of section 1.964-1(a) through (e), translated into the foreign corporation's functional currency according to Notice 88-70, 1988-2 C.B. 369.

### Column (c)

Use column (c) to report the running balance of the foreign corporation's previously taxed earnings and profits (PTI), or section 964(a) E&P accumulated since 1962 that have resulted in deemed inclusions under subpart F. Pre-1987 U.S. dollar PTI should be translated into the foreign corporation's functional currency using the rules of Notice 88-70 and added to post-1986 amounts in the appropriate PTI category. Include in column (c)(i) PTI attributable to, or reclassified as, investments in U.S. property (section 959(c)(1)(A) amounts). Include in column (c)(ii) PTI attributable to, or reclassified as, earnings invested in excess passive assets (section 959(c)(1)(B) amounts). Include in column (c)(iii) PTI attributable to subpart F income net of any reclassifications (section 959(c)(2) amounts).

### Column (d)

Use column (d) to report the opening and closing balance of the foreign corporation's accumulated E&P. This amount is the sum of post-1986 undistributed earnings, pre-1987 section 964(a) E&P not previously taxed, and PTI.

## Schedule M

Every U.S. person described in Category (4) must file Schedule M to report the transactions of the foreign corporation's annual accounting period ending with or within the U.S. person's tax year.

If a U.S. corporation that owns stock in a foreign corporation is a member of a consolidated group, list the common parent as the U.S. person filing the Schedule M.

**Column b.**—Use column (b) to report transactions between the CFC and the Category (4) person filing the return.

**Lines 6 and 16.**—Report on these lines dividends received and paid by the foreign corporation that have not been previously taxed under subpart F in the current year or in any prior year.

**Lines 19 and 20.**—Lines 19 and 20 request the largest outstanding balances during the year of gross amounts borrowed from, and gross amounts loaned to, the related parties described in columns (b) through (f). Do not enter aggregate cash flows, year-end loan balances, average balances, or net balances. Do not include

open account balances resulting from sales and purchases reported under other items listed on Schedule M that arise and are collected in full in the ordinary course of business.

## Schedule N

**Note:** *In computing a shareholder's taxable income (on the shareholder's income tax return), actual dividends are translated into U.S. dollars at the spot rate on the date the dividend is included in income. Deemed inclusions of undistributed foreign personal holding company income are translated into U.S. dollars at the weighted average exchange rate for the foreign corporation's tax year (as defined in Regulations section 1.989(b)-1).*

### Who Must File

Every U.S. citizen or resident described in Category (1) must file Schedule N to report the activities of a foreign personal holding company. The information is submitted for the company's annual accounting period that ends with or within the officer's, director's, or shareholder's tax year.

Whether an individual is a Category (1) filer is determined on the date Form 5471 is required to be filed. If no individual qualifies as of that date, the determination is made on the last day of the foreign corporation's tax year in which there was such a person who was a U.S. citizen or resident.

If the corporation ceased to be a foreign personal holding company during the tax year or after the tax year ended, you must still file Schedule N if it was a foreign personal holding company at any time during the tax year.

**First-time Filer.**—If this is the first time you are submitting information required under section 6035, attach the following:

- A statement of stock ownership showing that during the corporation's tax year more than 50% in value of its outstanding stock was owned, directly or indirectly, by or for not more than five individual citizens or residents of the United States.
- A detailed statement of the conversion privileges of any outstanding securities that are convertible to the corporation's stock.
- A detailed statement of the respective rights of the various classes of shareholders if more than one class of stock is outstanding.

**Exception.** This information does not need to be submitted if it was previously furnished by another person.

### Foreign Personal Holding Company

A foreign corporation qualifies as a foreign personal holding company if:  
**(a)** at any time during the tax year more than 50% of the combined voting power of all classes of stock entitled to vote or the total value of the stock of the corporation is owned (directly or indirectly) by or for a group of five or fewer U.S. citizens or

residents; and **(b)** the foreign corporation meets the "gross income test" (described below).

The following entities do not qualify as foreign personal holding companies:

- A corporation exempt from income tax under subchapter F (sections 501 through 528);
- A corporation organized and doing business under the banking and credit laws of a foreign country if it is established to the satisfaction of the Secretary that the corporation is not being used to avoid or evade taxes that would normally be imposed upon its shareholders. If the corporation meets this test, the Secretary will issue a certificate that the corporation is not a foreign personal holding company. Shareholders that meet this exception must attach a copy of the Secretary's certificate to their income tax return for each tax year that they are shareholders in the corporation.

**Gross income test.**—This test is met if at least 60% of the foreign corporation's gross income (as defined in section 555(a)) is foreign personal holding company income (defined below).

Once a foreign personal holding company meets the gross income test, the minimum percentage is lowered to 50% for any subsequent tax year. The foreign corporation will, however, continue to be considered a foreign personal holding company until either: **(a)** the stock requirement test is not met, or **(b)** the end of 3 consecutive tax years in each of which less than 50% of the gross income is foreign personal holding company income.

**Foreign personal holding company income.**—This type of income includes dividend income, interest income, rental income (unless such income constitutes 50% or more of the gross income of the foreign corporation), income from royalties, and income from annuities. It also includes gains from the sale or exchange of stock or securities (except for regular dealers of stock or securities), certain gains from commodities transactions, and certain income from estates and trusts, personal service contracts, and the use of the foreign corporation's property by a shareholder. See section 553 for more information.

## Part I—Shareholder Information

### Section A

List the outstanding securities of the foreign personal holding company that are convertible into the stock of the foreign personal holding company. List the interest rate and the face value of the securities at the beginning and end of the corporation's annual accounting period. Also list any options granted by the corporation during its tax year.

### Section B

Identify each person who is the holder of convertible securities in the foreign personal holding company. Also, enter the class of securities held, the number and

face value at the beginning and end of the corporation's tax year, and an explanation of any change in the holdings for each person holding the convertible securities.

Enter the name and address of each person granted an option for the stock of the foreign personal holding company.

## Part II—Income Information

### Section A

**Line 4a. Taxes.**—Enter the difference between the taxes deducted in computing taxable income and the taxes allowable under section 556(b)(1) in computing undistributed foreign personal holding company income.

Attach a schedule showing (1) the nature of income on which Federal income tax was paid or withheld at the source; (2) when and where the tax was paid or withheld; (3) the amount of tax paid or accrued; and (4) the tax year to which the tax relates.

Also, attach a schedule of income, war profits, and excess profits taxes of foreign countries and U.S. possessions accrued during the tax year not allowable as a deduction because a foreign tax credit was claimed.

**Line 4b. Charitable contributions.**— Enter the difference between the charitable contributions deducted in computing taxable income and the charitable contributions allowable under section 556(b)(2) in computing undistributed foreign personal holding company income. See section 556(b)(2) and the related regulations.

The carryover of charitable contributions made in a prior year is not allowed as a deduction in computing undistributed foreign personal holding company income for any tax year.

**Line 4c. Special deductions disallowed.**—The special deductions described in section 556(b)(3) are not allowed in computing undistributed foreign personal holding company income. Therefore, they must be added back to taxable income in computing undistributed foreign personal holding company income. Enter these amounts on line 4c as a positive number.

**Line 4d. Net operating loss.**—In computing undistributed foreign personal holding company income, only the amount of the net operating loss (as defined in section 172(c)) for the preceding tax year computed without the deductions provided in sections 241 through 247, 249, and 250 is allowed. Enter on line 4d the difference between this amount and the net operating loss deduction allowed in computing taxable income.

**Line 4e. Expenses and depreciation applicable to property of the taxpayer.**— Enter the total expenses limited by section 556(b)(5) as a positive number. In computing undistributed foreign personal holding company income, section 556(b)(5) limits the allowance of deductions for trade or business expenses and depreciation that are allocable to the operation and maintenance of the property owned or

operated by a foreign personal holding company. These deductions will not be allowed in excess of the aggregate amount of the rent or other compensation received for the use of, or the right to use, the property unless it is established to the satisfaction of the Commissioner that:

1. The rent or other compensation received was the highest obtained, or, if none was received, that none was obtainable;

2. The property was held in the course of a business carried on for profit; and

3. Either there was reasonable expectation that the operation of the property would result in a profit or the property was necessary to the conduct of the business.

If excess deductions are claimed, attach a statement for each property showing the following:

1. A description of the property;

2. The cost or other basis to the corporation and the nature and value of the consideration paid for the property;

3. The name and address of the person from whom the property was acquired and the date the property was acquired;

4. The name and address of the person to whom the property was leased or rented, or the person permitted to use the property, and the number of shares of stock, if any, held by the person and the members of his or her family;

5. The nature (cash, securities, services, etc.) and the gross amount of rent or other compensation received or accrued for the use of, or the right to use, the property during the tax year and for each of the 5 preceding years and the amount of expense incurred for, and the depreciation sustained on, the property for such years;

6. Evidence that the rent or other compensation was the highest obtainable or, if none was received or accrued, a statement of the reason that none was received or accrued;

7. A copy of the contract, lease, or rental agreement;

8. The purpose for which the property was used;

9. The business carried on by the corporation for which the property was held and the gross income, expenses, and taxable income from the conduct of that business for the tax year and for each of the 5 preceding years;

10. The reasons for acquiring the property, for expecting that it would be profitable, and for using the property in the business of the corporation; and

11. Any other information in support of the deductions.

**Line 4f. Taxes and contributions to pension trusts not allowable under section 556(b)(6).**—Enter the total amount of any deductions taken in computing taxable income under the provisions of section 164(e), relating to taxes of a shareholder paid by the corporation, and section 404, relating to pension, etc., trusts.

**Line 8. Deduction allowed under section 563(c) for dividends paid after close of tax year.**—Enter all dividends paid after the close of the tax year and on or before the 15th day of the 3rd month following the close of the year if the foreign personal holding company designated such dividends as taken into account under section 563(c).

**Note:** This amount may not exceed the amount entered on line 7. See section 563(c) for additional information.

### Section B

The deduction for dividends paid is the sum of the dividends paid during the tax year and the consent dividends for the tax year (determined under section 565). See sections 561 and 562.

Attach a copy of each dividend resolution. Also attach a concise statement of the pertinent facts relating to the payment of each dividend, clearly specifying (a) the medium of payment; (b) if not paid in money, the fair market value and adjusted basis (or face value, if paid in the corporation's own obligations) on the date of distribution of the property; and (c) the manner in which the fair market value and adjusted basis were determined.

## Schedule O

Schedule O is used to report the organization or reorganization of a foreign corporation and the acquisition or disposition of its stock. Every U.S. citizen or resident described in Category (2) (examples are listed below) must complete Schedule O, Part I. Every U.S. person described in Category (3) (examples are listed below) must complete Schedule O, Part II. See Regulations section 1.6046-1(i) for rules on determining when U.S. persons constructively own stock of a foreign corporation and therefore are subject to the section 6046 filing requirements.

### Examples of Category (2) Filers

1. Mr. Harris is a U.S. citizen who is a director of a foreign corporation. Mr. Johnson, also a U.S. citizen, acquired stock of that foreign corporation in the following transactions:

a. On March 1, 1994, Mr. Johnson acquires 2% in value of the foreign corporation's outstanding stock;

b. On October 1, 1994, Mr. Johnson acquires an additional 2% in value of the foreign corporation's outstanding stock; and

c. On December 1, 1994, Mr. Johnson acquires an additional 2% in value of the foreign corporation's outstanding stock.

Mr. Harris is required to report Mr. Johnson's December 1, 1994, transaction because Mr. Johnson at that point owned 5% or more in value of the outstanding stock of the foreign corporation.

2. The facts are the same as above. Also, Mr. Johnson acquires an additional 4% in value of the foreign corporation's outstanding stock on March 1, 1995; and

on April 1, 1995, Mr. Johnson acquires an additional 2% in value of the foreign corporation's outstanding stock.

Mr. Harris does not have to complete Schedule O for the March 1, 1995, transaction because Mr. Johnson had not acquired an additional 5% or more in value of the outstanding stock of the foreign corporation since Mr. Harris last filed Form 5471 and Schedule O. Mr. Harris is, however, required to complete Schedule O for the April 1, 1995, transaction because Mr. Johnson had, at that time, acquired an additional 5% or more in value of the foreign corporation's outstanding stock.

### Examples of Category (3) Filers

1. On June 10, 1993, a calendar year domestic corporation, Z, acquires 6% in value of the outstanding stock of a foreign corporation. Z completes Form 5471 and Schedule O to report this transaction. On July 7, 1994, Z acquires an additional 4% in value of the outstanding stock of the foreign corporation and on September 2, 1994, Z acquires an additional 2% in value of the foreign corporation's outstanding stock. Z is not required to complete Schedule O for the July 7, 1994, transaction, but Z must complete Schedule O to report the September 2, 1994, transaction because that transaction gives Z an additional 5% or more in value of the outstanding stock of the foreign corporation from the last time Z became liable for completing Schedule O (June 10, 1993).

2. On May 1, 1994, D, a domestic corporation, owns 15% in value of the outstanding stock of a foreign corporation. On August 7, 1994, the foreign corporation was reorganized. As a result, D then owned 7% in value of the foreign corporation's outstanding stock. D must complete Schedule O to report this transaction.

3. The facts are the same as in Example 2 above. Additionally, on October 1, 1994, D donates 3% in value of the outstanding stock of the foreign corporation to a charitable organization. D must complete Schedule O to report this transaction because the transaction reduces D's

interest in the foreign corporation to less than 5% in value of its outstanding stock.

### Part I

**Column (d).**—Enter the date on which the shareholder first owned 5% or more in value of the outstanding stock of the foreign corporation (i.e., the date on which the shareholder became a person described in Regulations section 1.6046-1(a)(2)(i)(a)).

**Column (e).**—Enter the date on which the shareholder acquired (whether in one or more transactions) an additional 5% or more in value of the outstanding stock of the foreign corporation (i.e., the date on which the shareholder became a person described in Regulations section 1.6046-1(a)(2)(i)(b)).

### Part II

#### Section C—Acquisition of Stock

Section C is completed by shareholders who are completing Schedule O because they have acquired sufficient stock in a foreign corporation. If the shareholder acquired the stock in more than one transaction, use a separate line to report each transaction.

**Column (d).**—Enter the method of acquisition (e.g., purchase, gift, bequest, trade, etc.).

**Column (e)(2).**—Enter the number of shares acquired indirectly (within the meaning of section 958(a)(2)) by the shareholder listed in column (a).

**Column (e)(3).**—Enter the number of shares constructively owned (within the meaning of section 958(b)) by the shareholder listed in column (a).

#### Section D—Disposition of Stock

Shareholders who dispose of their interest (or part) in a foreign corporation must complete Section D.

**Column (d).**—Enter the method of disposition (e.g., sale, bequest, gift, trade, etc.).

### Example for Section D

In 1992, Mr. Jackson, a U.S. citizen, purchased 10,000 shares of common stock of foreign corporation X. The purchase represented 10% ownership of the foreign corporation.

On July 1, 1994, Mr. Jackson made a gift of 5,000 shares of foreign corporation X to his son, John. Because Mr. Jackson has reduced his holding in the foreign corporation by 5%, he is required to complete Form 5471 and Schedule O. To show the required information about the disposition, Mr. Jackson completes Section D as follows:

- Enters his name in column (a).
- Enters "common" in column (b).
- Enters "July 1, 1994," in column (c).
- Enters "gift" in column (d).
- Enters "5,000" in column (e)(1).
- Enters "-0-" in column (f) because the disposition was by gift.
- Enters the name and address of his son, John, in column (g).

### Section F

#### Example for Item (c)

Mr. Lyons acquires a 10% ownership in foreign corporation F. F is the 100% owner of two foreign corporations, FI and FJ. F is also a 50% owner of foreign corporation FK. In addition, F is 90% owned by foreign corporation W.

Mr. Lyons completes and files Form 5471 and Schedule O for the corporations in which he is a 5% or more shareholder.

In addition, Mr. Lyons is required to submit a schedule if the foreign corporation is a member of a chain of corporations, and to indicate if he is a 5% or more shareholder in any of those corporations.

Mr. Lyons would prepare a list showing the corporations in the following order:

- Corporation W
- Corporation F
- Corporation FI
- Corporation FJ
- Corporation FK

Then Mr. Lyons is required to indicate that he is a 5% or more shareholder in corporations F, FI, FJ, and FK.

## Codes for Principal Business Activity

These codes for the Principal Business Activity are designed to classify enterprises by the type of activity in which they are engaged to facilitate the administration of the Internal Revenue Code. Though similar in format and structure to the Standard Industrial Classification (SIC) codes, they should not be used as SIC codes.

Using the list below, enter on page 1, item 1f, the code number for the specific industry group from which the largest percentage of "total receipts" is derived.

If, as its principal business activity, the corporation (1) purchases raw materials, (2) subcontracts out for labor to make a finished product from the raw materials, and (3) retains title to the goods, the corporation is considered to be a manufacturer and must enter one of the codes (2010 through 3998) under "Manufacturing."

### Agriculture, Forestry, and Fishing

**Code**  
0400 Agricultural production  
0600 Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping

### Mining

#### Metal mining

1010 Iron ores  
1070 Copper, lead and zinc, gold and silver ores  
1098 Other metal mining  
1150 Coal mining

#### Oil and gas extraction

1330 Crude petroleum, natural gas, and natural gas liquids  
1380 Oil and gas field services

#### Nonmetallic minerals, except fuels

1430 Dimension, crushed and broken stone; sand and gravel  
1498 Other nonmetallic minerals, except fuels

### Construction

#### General building contractors and operative builders

1510 General building contractors  
1531 Operative builders  
1600 Heavy construction contractors

#### Special trade contractors

1711 Plumbing, heating, and air conditioning  
1731 Electrical work  
1798 Other special trade contractors

### Manufacturing

#### Food and kindred products

2010 Meat products  
2020 Dairy products  
2030 Preserved fruits and vegetables  
2040 Grain mill products  
2050 Bakery products  
2060 Sugar and confectionery products  
2081 Malt liquors and malt  
2088 Alcoholic beverages, except malt liquors and malt  
2089 Bottled soft drinks, and flavorings  
2096 Other food and kindred products  
2100 Tobacco manufacturers

#### Textile mill products

2228 Weaving mills and textile finishing  
2250 Knitting mills  
2290 Other textile mill products

#### Apparel and other textile products

2315 Men's and boys' clothing  
2345 Women's and children's clothing  
2388 Other apparel and accessories  
2390 Miscellaneous fabricated textile products

#### Lumber and wood products

2415 Logging, sawmills, and planing mills  
2430 Millwork, plywood, and related products  
2498 Other wood products, including wood buildings and mobile homes  
2500 Furniture and fixtures

### Code

#### Paper and allied products

2625 Pulp, paper, and board mills  
2699 Other paper products

#### Printing and publishing

2710 Newspapers  
2720 Periodicals  
2735 Books, greeting cards, and miscellaneous publishing  
2799 Commercial and other printing, and printing trade services

#### Chemicals and allied products

2815 Industrial chemicals, plastics materials and synthetics  
2830 Drugs  
2840 Soap, cleaners, and toilet goods  
2850 Paints and allied products  
2898 Agricultural and other chemical products

#### Petroleum refining and related industries (including those integrated with extraction)

2910 Petroleum refining (including integrated)  
2998 Other petroleum and coal products

#### Rubber and misc. plastics products

3050 Rubber products, plastics footwear, hose and belting  
3070 Misc. plastics products

#### Leather and leather products

3140 Footwear, except rubber  
3198 Other leather and leather products

#### Stone, clay, and glass products

3225 Glass products  
3240 Cement, hydraulic  
3270 Concrete, gypsum, and plaster products  
3298 Other nonmetallic mineral products

#### Primary metal industries

3370 Ferrous metal industries; misc. primary metal products  
3380 Nonferrous metal industries

#### Fabricated metal products

3410 Metal cans and shipping containers  
3428 Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products  
3430 Plumbing and heating, except electric and warm air  
3440 Fabricated structural metal products  
3460 Metal forgings and stampings  
3470 Coating, engraving, and allied services  
3480 Ordnance and accessories, except vehicles and guided missiles  
3490 Misc. fabricated metal products

#### Machinery, except electrical

3520 Farm machinery  
3530 Construction and related machinery  
3540 Metalworking machinery  
3550 Special industry machinery  
3560 General industrial machinery  
3570 Office, computing, and accounting machines  
3598 Other machinery except electrical

### Code

#### Electrical and electronic equipment

3630 Household appliances  
3665 Radio, television, and communication equipment  
3670 Electronic components and accessories  
3698 Other electrical equipment  
3710 Motor vehicles and equipment  
Transportation equipment, except motor vehicles  
3725 Aircraft, guided missiles and parts  
3730 Ship and boat building and repairing  
3798 Other transportation equipment, except motor vehicles

#### Instruments and related products

3815 Scientific instruments and measuring devices; watches and clocks  
3845 Optical, medical, and ophthalmic goods  
3860 Photographic equipment and supplies  
3998 Other manufacturing products

### Transportation and Public Utilities

#### Transportation

4000 Railroad transportation  
4100 Local and interurban passenger transit  
4200 Trucking and warehousing  
4400 Water transportation  
4500 Transportation by air  
4600 Pipe lines, except natural gas  
4700 Miscellaneous transportation services

#### Communication

4825 Telephone, telegraph, and other communication services

4830 Radio and television broadcasting

#### Electric, gas, and sanitary services

4910 Electric services  
4920 Gas production and distribution  
4930 Combination utility services  
4990 Water supply and other sanitary services

### Wholesale Trade

#### Durable

5008 Machinery, equipment, and supplies  
5010 Motor vehicles and automotive equipment  
5020 Furniture and home furnishings materials  
5030 Lumber and construction materials  
5040 Sporting, recreational, photographic, and hobby goods, toys and supplies  
5050 Metals and minerals, except petroleum and scrap  
5060 Electrical goods  
5070 Hardware, plumbing and heating equipment and supplies  
5098 Other durable goods

#### Nondurable

5110 Paper and paper products  
5129 Drugs, drug proprietaries, and druggists' sundries  
5130 Apparel, piece goods, and notions  
5140 Groceries and related products  
5150 Farm-product raw materials  
5160 Chemicals and allied products  
5170 Petroleum and petroleum products  
5180 Alcoholic beverages  
5190 Misc. nondurable goods

### Retail Trade

#### Building materials, garden supplies, and mobile home dealers

5220 Building materials dealers  
5251 Hardware stores  
5265 Garden supplies and mobile home dealers

#### 5300 General merchandise stores

#### Food stores

5410 Grocery stores  
5490 Other food stores

#### Automotive dealers and service stations

5515 Motor vehicle dealers  
5541 Gasoline service stations  
5598 Other automotive dealers

#### 5600 Apparel and accessory stores

5700 Furniture and home furnishings stores  
5800 Eating and drinking places

### Code

#### Misc. retail stores

5912 Drug stores and proprietary stores  
5921 Liquor stores  
5995 Other retail stores

### Finance, Insurance, and Real Estate

#### Banking

6030 Mutual savings banks  
6060 Bank holding companies  
6090 Banks, except mutual savings banks and bank holding companies

#### Credit agencies other than banks

6120 Savings and loan associations  
6140 Personal credit institutions  
6150 Business credit institutions  
6199 Other credit agencies

#### Security, commodity brokers and services

6210 Security brokers, dealers, and flotation companies  
6299 Commodity contracts brokers and dealers; security and commodity exchanges; and allied services

#### Insurance

6355 Life insurance  
6356 Mutual insurance, except life or marine and certain fire or flood insurance companies  
6359 Other insurance companies  
6411 Insurance agents, brokers, and service

#### Real estate

6511 Real estate operators and lessors of buildings  
6516 Lessors of mining, oil, and similar property  
6518 Lessors of railroad property and other real property  
6530 Condominium management and cooperative housing associations  
6550 Subdividers and developers  
6599 Other real estate

#### Holding and other investment companies, except bank holding companies

6744 Small business investment companies  
6749 Other holding and investment companies except bank holding companies

### Services

7000 Hotels and other lodging places  
7200 Personal services

#### Business services

7310 Advertising  
7389 Business services, except advertising

#### Auto repair; misc. repair services

7500 Auto repair and services  
7600 Misc. repair services

#### Amusement and recreation services

7812 Motion picture production, distribution, and services  
7830 Motion picture theaters  
7900 Amusement and recreation services, except motion pictures

#### Other services

8015 Offices of physicians, including osteopathic physicians  
8021 Offices of dentists  
8040 Offices of other health practitioners  
8050 Nursing and personal care facilities  
8060 Hospitals  
8071 Medical laboratories  
8099 Other medical services  
8111 Legal services  
8200 Educational services  
8300 Social services  
8600 Membership organizations  
8911 Architectural and engineering services  
8930 Accounting, auditing, and bookkeeping  
8980 Miscellaneous services (including veterinarians)

