

MEMO# 5665

March 14, 1994

IRS AMENDS PROCEDURE FOR COMPLETING FORM 1116, COMPUTATION OF FOREIGN TAX CREDIT

1 See Institute Memorandum to Tax Committee No. 2-91, dated January 30, 1991. 2 As we previously informed you, this proposal has been included in a more expansive form in several recent tax simplification packages, two of which were vetoed in 1992 by President Bush. See, e.g., Institute Memorandum to Tax Members No. 65-92, Accounting/Treasurers Members No. 37-92, Closed-End Fund Members No. 37-92, Operations Members No. 37-92, Unit Investment Trust Members No. 50-92, International Members No. 22-92 and Transfer Agent Advisory Committee No. 58-92, dated October 8, 1992. 3 In general, all of a RIC's foreign source income will be classified as "passive." March 14, 1994 TO: ACCOUNTING/TREASURERS MEMBERS NO. 9-94 TAX MEMBERS NO. 9-94 TRANSFER AGENT ADVISORY COMMITTEE NO. 9-94 RE: IRS AMENDS PROCEDURE FOR COMPLETING FORM 1116, COMPUTATION OF FOREIGN TAX CREDIT

Under present law, regulated investment company ("RIC") shareholders seeking to claim foreign tax credits attributable to their RIC investments are required to complete IRS Form 1116. In completing this Form, taxpayers must (1) provide a country-by-country breakdown of their foreign source income and foreign taxes paid thereon and (2) perform detailed calculations to ensure that the amount of creditable foreign tax does not exceed a specified ceiling. For RIC shareholders, particularly those with relatively small amounts of creditable foreign tax, the burden of completing the Form can be significant. To relieve this burden, the Institute advanced two proposals for simplifying the foreign tax credit rules.¹ The Institute's first proposal was designed, consistent with present law, to greatly simplify the reporting on Form 1116. The second proposal urged a legislative change to effectively eliminate the need for a RIC shareholder with foreign tax credits totalling less than \$100 to complete Form 1116.² We are pleased to inform you that the IRS has modified the instructions to the 1993 Form 1116 (attached) to implement the Institute's first suggestion. Specifically, a taxpayer is not required to complete Parts I and II of the Form on a country-by-country basis if: 1) the taxpayer's only foreign source income is "passive"³ and has been reported, along with the creditable foreign taxes, on Forms 1099-DIV or similar statements, and 2) the total of all foreign taxes shown on Forms 1099-DIV and similar statements does not exceed \$200 (\$400 if filing jointly). If these two conditions are met, the taxpayer may effectively treat all foreign source income as arising from one source (by identifying the source country as "various") and complete the Form 1116 using the abbreviated method described in the instructions. We will keep you informed of developments. Keith D. Lawson Associate Counsel - Tax Attachments

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.