
K-2/K-3 Common Questions

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K-2/K-3 U.S. Country Code Entry

- In the example below the country code “OC” is for other countries, however it is currently being used to represent the country “U.S.” for United States.

2 - Schedule K-2 Part II Section 1 Income

Row Code	Description	Option Code	Ratio ID	Country Code	U.S. Source	Foreign Branch	Passive Category	General Category	Source by Partner	Other category code
1				OC	1000					Leave blank
										Leave blank
										Leave blank
										Leave blank
										Leave blank
					1000	0	0	0	0	

Part II Foreign Tax Credit Limitation

Section 1 - Gross Income

Description	(a) U.S. source	Foreign Source		
		(b) Foreign branch category income	(c) Passive category income	(d) Other category income
1 Sales				
A US	1000.	0.	0.	
B				
C				

- To generate income for country code “U.S” you will have to use code “OC”. If you have multiple countries to generate income for you will have to enter those separately by each country code.

Income/Deductions Not Flowing As Expected

- K-2 income/deductions flow directly from entries under the K-2 input screen. If input is not flowing correctly to the K-2 it is either due to using an incorrect *line code* in the input or not having a *country code* selected.

2 - Schedule K-2 Part II Section 1 Income

Detail Select Import Export

Row Code	Description	Option Code	Ratio ID	Country Code	U.S. Source	Foreign Branch	Passive Category	General Category	Source by Partner	Other category code
2				UY		1000				Leave blank
										Leave blank
										Leave blank
										Leave blank
										Leave blank
					0	1000	0	0	0	

- If the K-3 is not generating the correct amounts but your K-2 is, this is due to the ratio allocation set up. If the ratio allocation entry for K-2 is used with *amounts* instead of *percentages* then the “Units” box in the allocation entry must be checked.
- KB articles [000136438](#) (Worksheet) and [000136555](#) (Interview) go into more detail for the K-2 income/deductions inputs.

Foreign Taxes Paid/Accrued

- When using the foreign taxes input for K-2, this entry will only generate on the Federal 1065/K-1 IF row code “1” for “Direct Foreign Taxes” is being used.
- Other available row codes, such as 2A-2G and 3, will not generate the foreign taxes paid/accrued on the Federal 1065/K-1.

13 - Schedule K-2 Part III Section 4 Foreign Tax Information

Detail Select Import Export 5 of 5 Add Delete Insert

Row Code	Ratio ID	Country Code	Type of Tax	Related Tax Year	Date Tax Paid	Functional Currency	Spot Rate	Section 951A Category		Foreign Branch Category			Passive Category	
								U.S.	Foreign	U.S.	Foreign	Partner	U.S.	Foreign
1		OC	WHTD		12/31/22			500						
					MM/DD/YY									
					MM/DD/YY									
					MM/DD/YY									
					MM/DD/YY									
								500	0	0	0	0	0	0

Part III Other Information for Preparation of Form 1116 or 1118 (continued)

Section 4 - Foreign Taxes

Description	(a) Type of tax	(b) Section 951A category income	
		U.S.	Foreign
1 Direct (section 901 or 903) foreign taxes: <input checked="" type="checkbox"/> Paid <input type="checkbox"/> Accrued			
A OC	WHTD	500.	0.
B			
C			
D			

Foreign Taxes Paid/Accrued

- Reminder: K-2 foreign taxes paid/accrued will only generate on the Federal 1065 return when row code "1" for "Direct Foreign Taxes" has been selected.

Other Information	18a Tax-exempt interest income	18a	
	b Other tax-exempt income	18b	
	c Nondeductible expenses	18c	
	19a Distributions of cash and marketable securities	19a	
	b Distributions of other property	19b	
	20a Investment income	20a	
	b Investment expenses	20b	
c Other items and amounts (attach statement)			
21 Total foreign taxes paid or accrued	21		500.

	Beginning	Ending	10 Net section 1231 gain (loss)	
Profit	100.0000000%	100.0000000%		
Loss	100.0000000%	100.0000000%	11 Other income (loss)	
Capital	100.0000000%	100.0000000%		
Check if decrease is due to sale or exchange of partnership interest				
<input type="checkbox"/>				
K Partner's share of liabilities:	Beginning	Ending	12 Section 179 deduction	21 Foreign taxes paid or accrued
Nonrecourse	\$	\$		500.
Qualified nonrecourse financing	\$	\$	13 Other deductions	
Recourse	\$	0. \$		
		0.		
Check this box if Item K includes liability amounts from lower tier partnerships				
<input type="checkbox"/>				

- The following KB articles go into detail regarding this input. ([000136438](#) Worksheet View) ([000136555](#) Interview).

K-2/K-3 Ratio Allocations

- The only way to manually allocate amounts for the K-2/K-3 are done with ratio allocations. Every K2 input section that has grid input will have a separate column labeled as “Ratio ID” and you can enter your own unique ratio ID number to manually allocate the K-2 amounts.

Row Code	Description	Option Code	Ratio ID	Country Code	U.S. Source	Foreign Branch	Passive Category	General Category	Source by Partner	Other category code
1			150C		1000					Leave blank
										Leave blank
										Leave blank
										Leave blank
										Leave blank
					1000	0	0	0	0	

- Note:** There are NO special allocation codes available for the K-2/K-3 forms.

K-2/K-3 Ratio Allocations

- Once you have entered a unique ratio ID you will then locate the special allocation inputs to manually allocate this (Worksheet: Special Allocations>Special Allocations>Ratio Allocations) (Interview: K-5).
- If you decide to use amounts instead of percentages, you will then have to check the box “Units” to ensure a correct allocation throughout the K-2/K-3 forms.
- Note:** If you use amounts instead of percentages and don’t check the Units box, you will see incorrect calculations/allocations for that amount on form K-3.

3 - Ratio Allocation

Select K < > X 1 of 1 Add Delete

	Ratio ID Number	Pro Forma	Depr/Amort Code	Sec 704(c) Partner Number **	SEC 704(c) Partner Name **	Suppress Residuals	Units
1	Ratio 1	15					<input checked="" type="checkbox"/>
2	Ratio 2						<input type="checkbox"/>
3	Ratio 3						<input type="checkbox"/>
4	Ratio 4						<input type="checkbox"/>
5	Ratio 5						<input type="checkbox"/>

** Note: Use Section 704 (c) Partner Number for asset tracking (see instructions)

User supplied description of the ratio

6	Ratio 1			
7	Ratio 2			
8	Ratio 3			
9	Ratio 4			
10	Ratio 5			

11

Select Import Export K < > X 1 of 25 Add Delete Insert

Partner Number	Partner Name	Ratio 1	Ratio 2	Ratio 3	Ratio 4	Ratio 5
1	Jim	1000.00000000				

K-3 Amounts

- The K-3 amounts will automatically generate based on your K-2 entries within your return. There are not specific inputs just for the K-3 since your K-3 will generate from the K-2.

Part II Foreign Tax Credit Limitation					
Section 1 - Gross Income					
K-2	Description	(a) U.S. source	Foreign Source		
			(b) Foreign branch category income	(c) Passive category income	(d) General category income
1	Sales				
A	BH	0.	500.	0.	0.
B					
C					

Part II Foreign Tax Credit Limitation					
Section 1 - Gross Income					
K-3	Description	(a) U.S. source	Foreign Source		
			(b) Foreign branch category income	(c) Passive category income	(d) General category income
1	Sales				
A	BH	0.	250.	0.	0.
B					
C					

- The [IRS Instructions](#) provided go into detail regarding the K-3 forms and their purposes.

Multiple 8865's

- To prepare multiple 8865 Schedule K-2 / K-3(s), it is recommended to use a combination of crossover function and stand alone 8865.
- Separate Client return with Form 8865 Schedule K-2/K-3(s) prepared will be absorbed by the Client return using the 8865-crossover functionality.

32 - 8865 Automated Feature

1

Detail Select Import Export

8865 Number	8865 Client Name	Client ID
1		
2		
3		
4		
5		

Worksheet input: Foreign > 8865 worksheet > Section 30 - 8865 Automated Feature.

Interview input: FORCC, boxes 30-59.

List of 8865s Included With This Reporting Entity

Caution: Do NOT use this form within a consolidated unit (No CC-1 should be present. Reporting Entity MUST be Number 1)

	8865 Number	8865 Name	Client ID
A	30 1	31	32
B	33 2	34	35
C	36 3	37	38
D	39 4	40	41
E	42 5	43	44
F	45 6	46	47
G	48 7	49	50
H	51 8	52	53
I	54 9	55	56
J	57 10	58	59

KB article [000035967](http://www.irs.gov/irb/2011-12/01-irb-12-01-01) goes into further detail for 8865 K-2/K-3 inputs.

K-2/K-3 Category Codes

- Separate category codes have been installed for all applicable K-2 inputs and these are available in a separate column within the input grids.

2 - Schedule K-2 Part II Section 1 Income

1

Detail Select Import Export

Row Code	Description	Option Code	Ratio ID	Country Code	U.S. Source	Foreign Branch	Passive Category	General Category	Source by Partner	Other category code
8						1000				RIC
										Leave blank
										Leave blank
										Leave blank
										Leave blank
					0	1000	0	0	0	

- Note:** These “Other Category Codes” can only be used if you are not currently using a country code for that specific input.

K-2/K-3 Electronic Filing

- For further information about the K-2/K-3 e-filing features, diagnostics, rejections and schema errors please review the CCH article listed below.
- [Electronic Filing / e-Filing Topics](#)

Helpful Articles for K-2/K-3

- [What to expect](#)
- [1065 Worksheet Input](#)
- [1065 Interview Input](#)
- [1120S Worksheet Input](#)
- [120S Interview Input](#)
- [1040 Interview Input](#)
- [Helpful K-2/K-3 Topics](#)



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