K-2/K-3 Common Questions



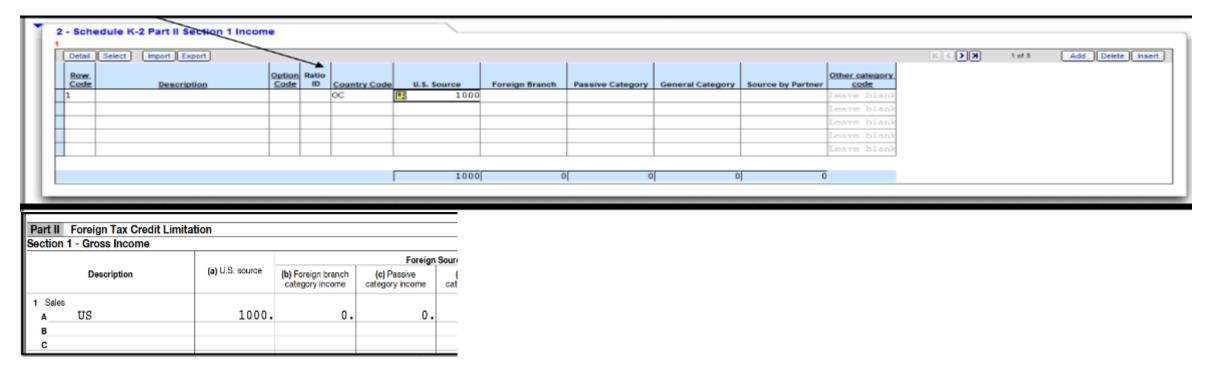


Topics

- K-2/K-3 U.S. Country Code Entry
- Income/Deductions Not Flowing As Expected
- Foreign Taxes Paid/Accrued
- Foreign Taxes Paid/Accrued
- K-2/K-3 Ratio Allocations
- K-2/K-3 Ratio Allocations
- K-3 Amounts
- Multiple 8865's
- K-2/K-3 Category Codes
- K-2/K-3 Electronic Filing
- Helpful Articles for K-2/K-3

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

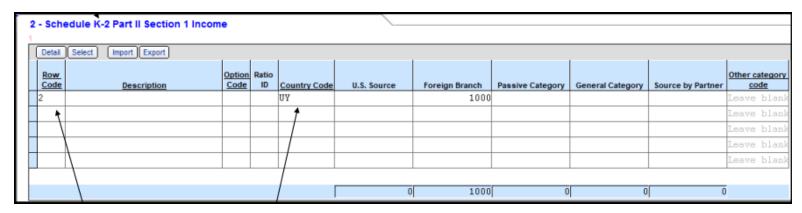
• In the example below the country code "OC" is for other countries, however it is currently being used to represent the country "U.S." for United States.



• 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

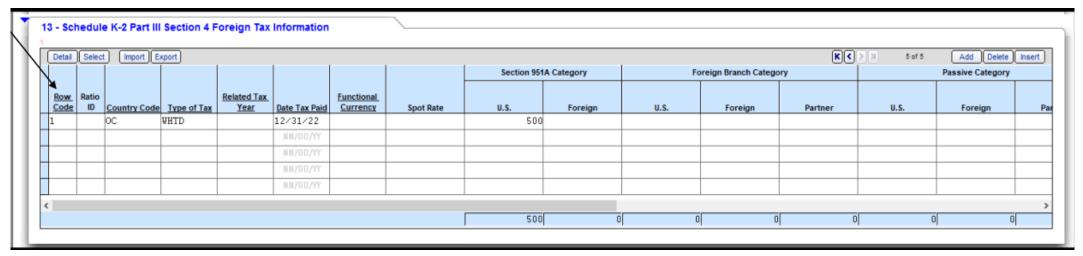
• K-2 income/deductions flow directly from entries under the K-2 input screen. If input is not flowing correctly to the K-2 it is either due to using an incorrect *line code* in the input or not having a *country code* selected.



- 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 <u>000136438</u> (Worksheet) and <u>000136555</u> (Interview) go into more detail for the K-2 income/deductions inputs.

Foreign Taxes Paid/Accrued

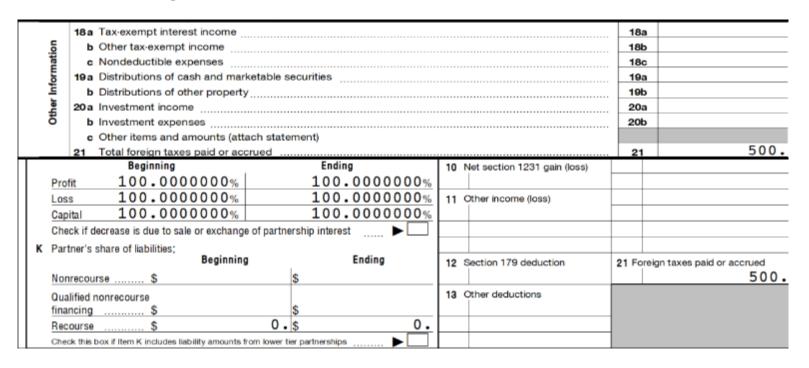
- When using the foreign taxes input for K-2, this entry will only generate on the Federal 1065/K-1 IF row code "1" for "Direct Foreign Taxes" is being used.
- Other available row codes, such as 2A-2G and 3, will not generate the foreign taxes paid/accrued on the Federal 1065/K-1.



Description	(a) Type of tax	(b) Section 951A category income		
		U.S.	Foreign	
1 Direct (section 901 or 903) foreign taxes: X Paid Accrued A OC	WHTD	500.	0	
В				
c				
D				

Foreign Taxes Paid/Accrued

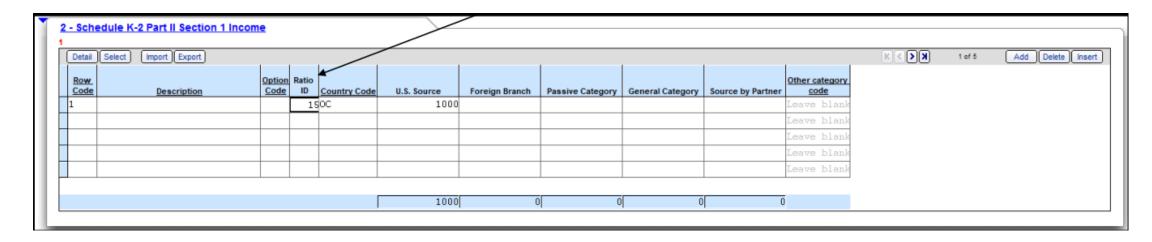
• Reminder: K-2 foreign taxes paid/accrued will only generate on the Federal 1065 return when row code "1" for "Direct Foreign Taxes" has been selected.



• The following KB articles go into detail regarding this input. (<u>000136438</u> Worksheet View) (<u>000136555</u> Interview).

K-2/K-3 Ratio Allocations

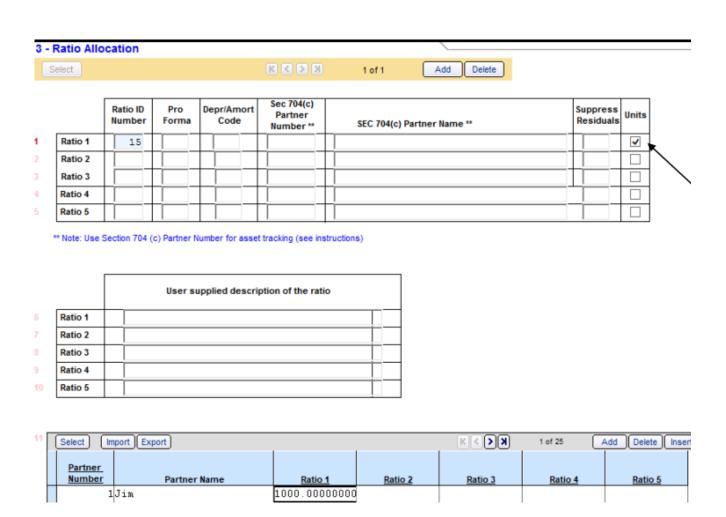
• The only way to manually allocate amounts for the K-2/K-3 are done with ratio allocations. Every K2 input section that has grid input will have a separate column labeled as "Ratio ID" and you can enter your own unique ratio ID number to manually allocate the K-2 amounts.



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.





K-3 Amounts

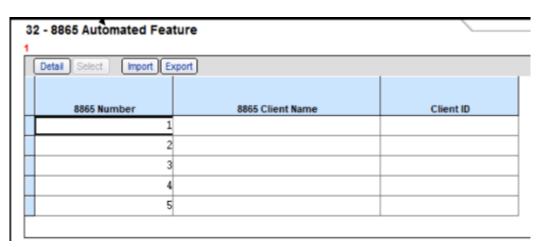
 The K-3 amounts will automatically generate based on your K-2 entries within your return. There are not specific inputs just for the K-3 since your K-3 will generate from the K-2.

Part II Foreign Tax Credit Limita	tion				
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					
ABH	0.	500.	0.	0.	
В					
С					
Part II Foreign Tax Credit Limita	tion				
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					
ABH	0.	250.	0.	0.	
В					
С					

• The <u>IRS Instructions</u> provided go into detail regarding the K-3 forms and their purposes.

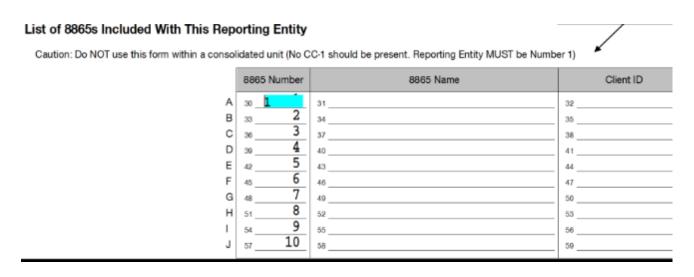
Multiple 8865's

- 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 8865crossover functionality.



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

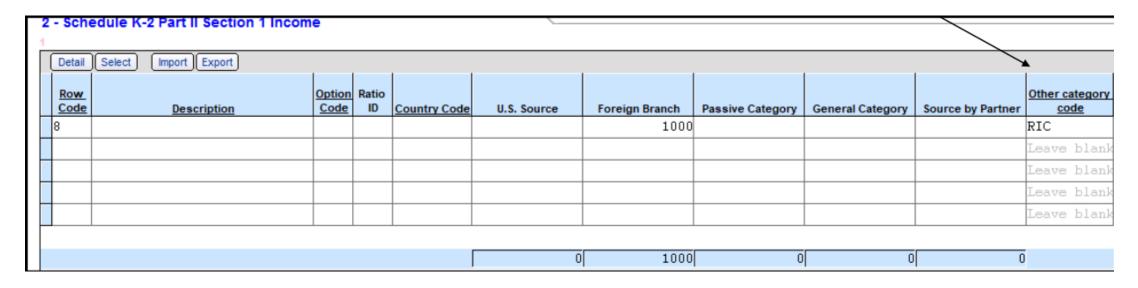
Interview input: FORCC, boxes 30-59.



KB article <u>000035967</u> 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.



 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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