



## Lesson Plan

### Foreign Tax Credit

Time Required: 30 minutes

Introduction	Objectives	Topics
<p>This lesson teaches students how to assist taxpayers who may be eligible for the foreign tax credit.</p> <p>There are two parts to this lesson: One for Advanced certification and one only for the International level. Advanced students will learn to use a simple election to claim the credit without filing Form 1116. International students will learn how to use Form 1116 to compute the credit.</p>	<p>Determine which taxes and types of foreign income are eligible for the foreign tax credit.</p> <p>Compute the credit accurately using Form 1116.</p> <p>Calculate and report the foreign tax credit as a nonrefundable credit.</p>	<p> Foreign Tax Credit Election to Claim Foreign Tax Credit Without Filing Form 1116</p> <p> Qualifying Requirements Economic Benefit and Sanctioned Country Restrictions Types of Income and Taxpayer Interview Form 1116</p>

### Key Terms

**Accrual method:** Accounting method that reports income when earned (not necessarily received) and expenses when incurred (not necessarily paid), as opposed to the cash method.

**Cash Method:** Accounting method that reports income when constructively received (not earned) and expenses when paid (not incurred), as opposed to the accrual method.

**Foreign Earned Income Exclusion:** The foreign earned income exclusion allows eligible taxpayers to avoid paying federal income tax on their foreign earned income.

**Foreign Tax Credit:** U.S. tax credit used to offset any foreign income tax taxpayers have paid on qualified income that is also subject to U.S. federal income tax.

**High Taxed Income:** Passive income that is taxed by a foreign government at a rate higher than the highest U.S. income tax rate, and may be classified as “general category income,” making it eligible for the foreign tax credit.

**Nonrefundable Credit:** A nonrefundable credit can only reduce the tax liability to zero. Any excess credit is not refunded to the taxpayer.

**Passive Income:** Taxable income that comes from passive activity, such as dividends, interest, royalties, rents, and annuities.

**Refundable Credit:** Occurs when the amount of a credit is greater than the tax owed. Taxpayers not only can have their tax reduced to zero; they can also receive a “refund” of excess credit.

## Teacher Tips

### Guidelines for Lesson

Guideline	Instructor Notes	Presentation Aids
Lesson background info	<b>Review</b> the online demo of TaxSlayer on nonrefundable credits.	<b>TaxSlayer® Demo:</b> From the Practice Lab, select: <ul style="list-style-type: none"> <li>• TaxSlayer IRS training</li> <li>• Click the appropriate demo</li> </ul>
Provide details and engage the students	<p><b>Discuss</b> all tips and cautions in detail.</p> <p><b>Ask</b> students to read and/or role-play examples and sample interviews.</p> <p><b>Review</b> answers to each exercise; ask students how they arrived at their answers.</p>	<p><b>Internet:</b> Link &amp; Learn Taxes (L&amp;LT) Foreign Tax Credit</p>

### Topic-specific Tips

Topic Name	Instructor Notes	Presentation Aids
Introduction	<p><b>Review</b> lesson objectives.</p> <p><b>Review</b> list of references.</p> <p><b>State</b> the presentation time.</p> <p><b>Review</b> Key Terms.</p> <p><b>Point out</b> that the foreign tax credit is not specifically listed on Form 13614-C, so volunteers need to ask taxpayers if they paid any tax to a foreign country.</p> <p><b>Review</b> the out of scope issues for the foreign tax credit.</p>	<p><b>Visuals:</b>  <a href="#">Form 13614-C</a>  <a href="#">Form 1040</a>  <a href="#">Form 1116</a>  <a href="#">Pub 4012</a>, Nonrefundable Credits tab  <a href="#">Pub 514</a></p>

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### Foreign Tax Credit

**State** that the purpose of the foreign tax credit is to help avoid double taxation.

**Review** the four tests to qualify for the credit.

**Refer** students to Pub 514, chapter on What Foreign Taxes Qualify for the Credit? for an explanation of each test.

**Point out** that the foreign earned income exclusion is different from the foreign tax credit. Taxpayers can choose the approach that results in the lower tax due.

**Refer** to the article on IRS.gov: Foreign Tax Credit – Choosing to Take Credit or Deduction.

**Review** Tax Topics and Foreign Tax Credit articles.

### Visuals:

[Form 1116 Instructions](#)

[Form 1116](#)

[Pub 514](#)

### Internet:

Tax Topics, [Foreign Tax Credit](#)

[What Foreign Taxes Qualify for the Foreign Tax Credit?](#)

[Foreign Tax Credit – Choosing To Take Credit or Deduction](#)

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### Election to Claim Foreign Tax Credit Without Filing Form 1116

**Review** the conditions that allow taxpayers to report foreign income tax on Form 1040 without filing Form 1116.

**Caution** students that taxpayers who must file Form 1116 must be referred to a volunteer with International certification.

**Display** the boxes on Forms 1099-INT and 1099-DIV showing foreign taxes paid.

**Review** Pub 4012 Form 1099-DIV entries for Simplified Limitation election.

**Demonstrate** TaxSlayer entering foreign taxes paid from Form 1099-INT or Form 1099-DIV

### Visuals:

[Form 1099-INT](#)

[Form 1099-DIV](#)

[Form 1116 Instructions](#)

[Pub 4012](#), Nonrefundable Credits tab

### TaxSlayer Demo:

[Entering Basic Credits, Form 1116 Foreign Tax Credit](#)

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Qualifying Requirements (International certification)	<p><b>Review</b> the items that qualify taxpayers for the foreign tax credit.</p> <p><b>Refer</b> students to Pub 514 chapter on Foreign Taxes for Which You Cannot Take a Credit for more explanations of the qualifications and restrictions.</p> <p><b>Emphasize</b> that taxpayers <b>cannot</b> take the foreign tax credit:</p> <ul style="list-style-type: none"><li>• For foreign income taxes paid on income excluded under the foreign earned income exclusion</li><li>• To offset inheritance taxes paid to foreign countries</li></ul> <p><b>Review</b> FAQs found on IRS.gov.</p>	<p><b>Visuals:</b> <a href="#">Pub 514</a> <a href="#">Form 1116 Instructions</a></p> <p><b>Internet:</b> FAQ, <a href="#">About International Individual Tax Matters</a></p>
Economic Benefit and Sanctioned Country Restrictions	<p><b>Discuss</b> examples of disqualifying economic benefits of paying a foreign tax, such as health services, or when taxpayer conducts a business transaction from which the taxpayer benefits directly or indirectly.</p> <p><b>Refer</b> students to Pub 514 for the most current list of countries not recognized for the purposes of the foreign tax credit.</p> <p><b>Refer</b> students to Form 1116 Instructions or Pub 514 for more information.</p> <p><b>Review</b> Tax Treaty articles found on IRS.gov.</p>	<p><b>Visuals:</b> <a href="#">Pub 514</a>, chapter on Foreign Taxes for Which You May Not Take a Credit, section on Taxes from International Boycott Operations</p> <p><a href="#">Form 1116 Instructions</a></p> <p><b>Internet:</b> <a href="#">Foreign Tax Credit Compliance Tips</a></p>
Types of Income and Taxpayer Interview	<p><b>Discuss</b> why the difference between passive and general categories of income is important.</p> <p><b>Ask:</b> When might passive income be included in general income category? <b>Answer:</b> When a foreign country taxes it at a rate higher than the highest U.S. income tax rate.</p>	<p><b>Visuals:</b> <a href="#">Pub 514</a> <a href="#">Form 1116</a></p>

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Form 1116	<p><b>Review</b> How to Figure the Credit article on IRS.gov.</p> <p><b>Review</b> Pub 4012, Form 1116, and <b>advise</b> students to refer to the step-by-step instructions.</p> <p><b>Point out</b> where the deduction must be manually entered on Form 1116. TaxSlayer will perform all other calculations.</p> <p><b>Demonstrate</b> TaxSlayer entries in Form 1116.</p>	<p><b>Visuals:</b>  <a href="#">Form 1116</a></p> <p><a href="#">Pub 4012</a>, Nonrefundable Credits tab</p> <p><b>Internet:</b>  <a href="#">Foreign Tax Credit – How To Figure The Credit</a></p> <p><b>TaxSlayer Demo:</b>  <a href="#">Entering Basic Credits, Form 1116 Foreign Tax Credit</a></p>
Skills Workout	<p><b>Review</b> the Skills Workout exercises with the class.</p>	<p><b>Visuals:</b>            L&amp;LT Foreign Tax Credit: Click Certification Warm Up icon to review the exercises</p>

References

Form 1040 Instructions	<a href="#">Form 1040 Instructions</a> , Line 48
Form 1116	<a href="#">Form 1116</a> , Foreign Tax Credit
Form 1116 Instructions	<a href="#">Instructions for Form 1116</a>
Form 13614-C	<a href="#">Form 13614-C</a> , Intake/Interview & Quality Review Sheet
Pub 4012, Volunteer Resource Guide	<a href="#">Pub 4012</a> , Volunteer Resource Guide, Nonrefundable Credits tab
Pub 514	<a href="#">Pub 514, Foreign Tax Credit for Individuals</a>

Recommended Classroom Activities



**Skills Workout**



**Certification Warm Up**



**Media: Videos & Audio**



**TaxSlayer Tutorial**



**Job Aids**



**Practice Lab**



**Skill Workout: Link & Learn Taxes Foreign Tax Credit**

Click Skills Workout to access Link & Learn Taxes Foreign Tax Credit.



**Certification Warm Up – Summary and Exercises**

Click Certification Warm Up to access the Summary and Exercises in Link & Learn Taxes Foreign Tax Credit.



**Media: Video & Audio for Lesson**

There is no media associated with this lesson.



**TaxSlayer Tips and Resources for Lesson**

TaxSlayer Training Video [Entering Basic Credits](#)

Practice Lab Tutorial

From the [Practice Lab](#):

1. Enter the universal password (if you do not have the password, you can request it from your site coordinator or SPEC relationship manager).
2. Sign in to Practice Lab or create an account.
3. Select the appropriate tutorial.



**Job Aids**

**ITA and FAQs for Lesson**

FAQs

About International Individual Tax Matters

<http://www.irs.gov/Individuals/International-Taxpayers/Frequently-Asked-Questions-About-International-Individual-Tax-Matters>

Tax Topics

Foreign Tax Credit

<http://www.irs.gov/taxtopics/tc856.html>

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Other

What Foreign Taxes Qualify for the Foreign Tax Credit?

<https://www.irs.gov/individuals/international-taxpayers/what-foreign-taxes-qualify-for-the-foreign-tax-credit>

Foreign Tax Credit – How To Figure The Credit

<https://www.irs.gov/individuals/international-taxpayers/foreign-tax-credit-how-to-figure-the-credit>

Foreign Tax Credit – Choosing To Take Credit or Deduction

<https://www.irs.gov/individuals/international-taxpayers/foreign-tax-credit-choosing-to-take-credit-or-deduction>

Foreign Tax Credit Compliance Tips

<https://www.irs.gov/individuals/international-taxpayers/foreign-tax-credit-compliance-tips>

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Practice Lab

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Practice Lab

<https://vita.taxslayerpro.com/IRSTraining/en/Account/Access>

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