§ 1.904(b)-1 Special rules for capital gains and losses.

(a) Capital gains and losses included in taxable income from sources outside the United States—

(1) Limitation on capital gain from sources outside the United States when the taxpayer has net capital losses from sources within the United States—

(i) In general.

(2) Determination of which capital gains are offset by net capital losses from sources outside the United States.

(2) Example.

(3) Rate differential portion.

(4) Rate group.

(i) Short-term capital gains or losses.

(ii) Long-term capital gains.

(iii) Long-term capital losses.

(5) Terms used in sections 1(h), 904(b) or 1222.

(b) Use of alternative minimum tax rates.

(1) Taxpayers other than corporations.

(2) Corporate taxpayers.

(c) Effective date.

[T.D. 9371, 72 FR 72596, Dec. 21, 2007]

§ 1.904(b)-2 Special rules for application of section 904(b) to alternative minimum tax foreign tax credit.

(a) Application of section 904(b)(2)(B) adjustments.

(b) Use of alternative minimum tax rates.

(1) Taxpayers other than corporations.

(2) Corporate taxpayers.

(c) Effective date.

[T.D. 9371, 72 FR 72596, Dec. 21, 2007]
in each rate group within the applicable separate category.

(2) Exclusivity of rules; no reduction by reason of net capital losses from sources outside the United States in a different separate category. Capital gains from sources outside the United States in any separate category shall be limited by reason of section 904(b)(2)(A) and the comparable limitation of section 904(b)(2)(B)(1) only to the extent provided in paragraph (a)(1) of this section (relating to limitation on capital gain from sources outside the United States when taxpayer has net capital losses from sources within the United States).

(3) Capital losses from sources outside the United States in the same separate category. Except as otherwise provided in paragraph (d) of this section, taxable income from sources outside the United States in each separate category shall be reduced by any capital loss that is allocable or apportionable to income from sources outside the United States in such separate category to the extent such loss is allowable in determining taxable income for the taxable year.

(4) Examples. The following examples illustrate the application of this paragraph (a) to taxpayers that do not have a capital gain rate differential for the taxable year. See paragraph (g) of this section for examples that illustrate the application of this paragraph (a) to taxpayers that have a capital gain rate differential for the year. The examples are as follows:

Example 1. Taxpayer A, a corporation, has a $3,000 capital loss from sources outside the United States in the general limitation category, a $6,000 capital gain from sources outside the United States in the passive category, and a $2,000 capital loss from sources within the United States. A's capital gain net income from sources outside the United States in the aggregate, from all separate categories, is $3,000 ($6,000 - $3,000). A's capital gain net income from all sources is $1,000 ($6,000 - $5,000). Thus, for purposes of section 904, A's taxable income from sources outside the United States in the general limitation category includes a capital loss from sources outside the United States of $100 ($600 - $500) only to the extent provided in paragraph (a)(1)(i) of this section. Pursuant to paragraph (a)(1)(i)(A) of this section, A must reduce the $6,000 of capital gain net income from sources outside the United States in the passive category by $2,000 ($3,000 of capital gain net income from sources outside the United States - $1,000 of capital gain net income from all sources). After the adjustment, A has $1,000 of capital gain from sources outside the United States in the passive category and $3,000 of capital loss from sources outside the United States in the general limitation category.

Example 2. Taxpayer B, a corporation, has a $300 capital gain from sources outside the United States in the general limitation category and a $200 capital gain from sources outside the United States in the passive category. B's capital gain net income from sources outside the United States is $500 ($300 + $200). B also has a $150 capital loss from sources within the United States and a $50 capital gain from sources within the United States. Thus, B's capital gain net income from all sources is $400 ($300 + $200 - $150 + $50). Pursuant to paragraph (a)(1)(i)(A) of this section, the $100 excess of capital gain net income from sources outside the United States over capital gain net income from all sources ($500 - $400) must be apportioned, as a reduction, three-fifths ($300/$500 of $100, or $60) to the general limitation category and two-fifths ($200/$500 of $100, or $40) to the passive category. Therefore, for purposes of section 904, the general limitation category includes $240 ($300 - $60) of capital gain net income from sources outside the United States and the passive category includes $160 ($200 - $40) of capital gain net income from sources outside the United States.

Example 3. Taxpayer C, a corporation, has a $10,000 capital loss from sources outside the United States in the general limitation category, a $4,000 capital gain from sources outside the United States in the passive category, and a $2,000 capital gain from sources within the United States. C's capital gain net income from sources outside the United States is zero, since losses exceed gains. C's capital gain net income from all sources is also zero. C's capital gain net income from sources outside the United States does not exceed its capital gain net income from all sources, and therefore paragraph (a)(1) of this section does not require any reduction of C's passive category capital gain. For purposes of section 904, C's passive category includes $4,000 of capital gain net income. C's general limitation category includes a capital loss of $6,000 because only $6,000 of capital loss is allowable as a deduction in the current year. The entire $4,000 of capital loss in excess of the $6,000 of capital loss that offsets capital gain in the taxable year is carried back or forward under section 1221(a), and none of such $4,000 is taken into account under section 904(a) or (b) for the current taxable year.

(b) Capital gain rate differential—(1) Application of adjustments only if capital
gain rate differential exists. Section 904(b)(2)(B) and paragraphs (c) and (d) of this section apply only for taxable years in which the taxpayer has a capital gain rate differential.

(2) Determination of whether capital gain rate differential exists. For purposes of section 904(b) and this section, a capital gain rate differential is considered to exist for the taxable year only if the taxpayer has taxable income (excluding net capital gain and qualified dividend income) for the taxable year, a net capital gain for the taxable year and—

(i) In the case of a taxpayer other than a corporation, tax is imposed on the net capital gain at a reduced rate under section 1(h) for the taxable year; or

(ii) In the case of a corporation, tax is imposed under section 1201(a) on the taxpayer at a rate less than any rate of tax imposed on the taxpayer by section 11, 511, or 831(a) or (b), whichever applies (determined without regard to the last sentence of section 11(b)(1)), for the taxable year.

(3) Special rule for certain noncorporate taxpayers. A taxpayer that has a capital gain rate differential for the taxable year under paragraph (b)(2)(i) of this section and is not subject to alternative minimum tax under section 55 for the taxable year may elect not to apply the rate differential adjustments contained in section 904(b)(2)(B) and paragraphs (c) and (d) of this section if the highest rate of tax imposed on such taxpayer’s taxable income (excluding net capital gain and any qualified dividend income) under section 55 does not exceed 26 percent, the highest rate of tax imposed on such taxpayer’s taxable income (excluding net capital gain and any qualified dividend income) for the taxable year under section 1 does not exceed the highest rate of tax in effect under section 1(h) for the taxable year and the amount of the taxpayer’s net capital gain from sources outside the United States, plus the amount of the taxpayer’s qualified dividend income from sources outside the United States, is less than $20,000. A taxpayer who makes this election shall apply paragraph (a) of this section as if such taxpayer does not have a capital gain rate differential for the taxable year. An eligible taxpayer shall be presumed to have elected not to apply the rate differential adjustments, unless such taxpayer applies the rate differential adjustments contained in section 904(b)(2)(B) and paragraphs (c) and (d) of this section in determining its foreign tax credit limitation for the taxable year.

(c) Rate differential adjustment of capital gains—(1) Rate differential adjustment of capital gains in foreign source taxable income—(i) In general. Subject to paragraph (c)(1)(ii) of this section, in determining taxable income from sources outside the United States for purposes of section 904 and this section, capital gain net income from sources outside the United States in each long-term rate group in each separate category (separate category long-term rate group), shall be reduced by the rate differential portion of such capital gain net income. For purposes of paragraphs (c)(1)(i) of this section, in determining taxable income from sources outside the United States for purposes of section 904 and this section, capital gain net income from sources outside the United States in each long-term rate group in each separate category (separate category long-term rate group), shall be reduced by the rate differential portion of such capital gain net income. For purposes of paragraph (c)(1) of this section, references to capital gain net income are references to capital gain net income remaining after any reduction to such income pursuant to paragraph (a)(1) of this section (i.e., paragraph (a)(1) of this section applies before paragraphs (c) and (d) of this section).

(ii) Special rule for taxpayers with a net long-term capital loss from sources within the United States. If a taxpayer has a net long-term capital loss from sources within the United States (i.e., the taxpayer’s long-term capital losses from sources within the United States exceed the taxpayer’s long-term capital
gains from sources within the United States and also has any short-term capital gains from sources within or without the United States, then capital gain net income from sources outside the United States in each separate category long-term rate group shall be reduced by the rate differential portion of the applicable rate differential amount. The applicable rate differential amount is determined as follows:

(A) **Step 1: Determine the U.S. long-term capital loss adjustment amount.** The U.S. long-term capital loss adjustment amount is the excess, if any, of the net long-term capital loss from sources within the United States over the amount, if any, by which the taxpayer reduced long-term capital gains from sources without the United States pursuant to paragraph (a)(1) of this section.

(B) **Step 2: Determine the applicable rate differential amount.** If a taxpayer has capital gain net income from sources outside the United States in only one separate category long-term rate group, the applicable rate differential amount is the excess of such capital gain net income over the U.S. long-term capital loss adjustment amount. If a taxpayer has capital gain net income from sources outside the United States in more than one separate category long-term rate group, the applicable rate differential amount shall be apportioned on a pro rata basis to each separate category long-term rate group with capital gain net income. For purposes of the preceding sentence, pro rata means based on the relative amounts of capital gain net income from sources outside the United States in each separate category long-term rate group. The applicable rate differential amount for each separate category long-term rate group with capital gain net income is the excess of such capital gain net income over the portion of the U.S. long-term capital loss adjustment amount apportioned to the separate category long-term rate group pursuant to this Step 2.

(iii) **Examples.** The following examples illustrate the provisions of paragraph (c)(1)(ii) of this section. The taxpayers in the examples are assumed to have taxable income (excluding net capital gain and qualified dividend income) subject to a rate of tax under section 1 greater than the highest rate of tax in effect under section 1(h) for the applicable taxable year. The examples are as follows:

**Example 1.** (i) M, an individual, has $300 of long-term capital gain from foreign sources in the passive category, $200 of which is subject to tax at a rate of 15 percent under section 1(h) and $100 of which is subject to tax at a rate of 28% under section 1(h). M has $150 of short-term capital gain from sources within the United States. M has a $100 long-term capital loss from sources within the United States.

(ii) M's capital gain net income from sources outside the United States ($300) does not exceed M's capital gain net income from all sources ($350). Therefore, paragraph (a)(1) of this section does not require any reduction of M's capital gain net income in the passive category.

(iii) Because M has a net long-term capital loss from sources within the United States ($100) and also has a short-term capital gain from U.S. sources ($150), M must apply the provisions of paragraph (c)(1)(ii) of this section to determine the amount of the $300 of capital gain net income in the passive category that is subject to a rate differential adjustment. Under **Step 1**, the U.S. long-term capital loss adjustment amount is $100 ($100 – $0). Under **Step 2**, M must apportion this amount to each separate category pro rata based on the amount of capital gain net income in each rate group. Thus, $86.67 ($300/$300 of $100) is apportioned to the 15 percent rate group and $33.33 ($100/$300 of $100) is apportioned to the 28 percent rate group. The applicable rate differential amount for the 15 percent rate group is $133.33 ($200 – $66.67). Thus, $133.33 of the $200 of capital gain net income in the 15 percent rate group is subject to a rate differential adjustment pursuant to paragraph (c)(1) of this section. The remaining $66.67 is not subject to a rate differential adjustment.

(iv) **Example 2.** (i) N, an individual, has $300 of long-term capital gain from foreign sources in the passive category, all of which is subject to tax at a rate of 15 percent under section 1(h). N has $50 of short-term capital gain from sources within the United States. N has a $100 long-term capital loss from sources within the United States.
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(i) N’s capital gain net income from sources outside the United States ($300) exceeds N’s capital gain net income from all sources ($250). Pursuant to paragraph (a)(1) of this section, N must reduce the $300 capital gain in the passive category by $50. N has $250 of capital gain remaining in the passive category.

(ii) Because N has a net long-term capital loss from sources within the United States ($100) and also has a short-term capital gain from sources outside the United States ($50), N must apply the provisions of paragraph (c)(1)(ii) of this section to determine the amount of the $250 of capital gain in the passive category that is subject to a rate differential adjustment. Under Step 1, the U.S. long-term capital loss adjustment amount is $50 ($100 – $50). Under Step 2, the applicable rate differential amount is $200 ($250 – $50). Thus, $200 of the capital gain in the passive category is subject to a rate differential adjustment under paragraph (c)(1) of this section. The remaining $25 of long-term capital gain is not subject to a rate differential adjustment.

(ii) Rate differential adjustment of capital gains in entire taxable income. For purposes of section 904 and this section, entire taxable income shall include gains from the sale or exchange of capital assets only to the extent of capital gain net income reduced by the sum of the rate differential portions of each rate group of net capital gain.

(d) Rate differential adjustment of capital losses from sources outside the United States—(1) In general. In determining taxable income from sources outside the United States for purposes of section 904 and this section, a taxpayer with a net capital loss in a separate category rate group shall reduce such net capital loss by the sum of the rate differential portions of the capital gain net income in each long-term rate group offset by such net capital loss. A net capital loss in a separate category rate group is the amount, if any, by which capital losses in a rate group from sources outside the United States included in a separate category exceed capital gains from sources outside the United States in the same rate group and the same separate category.

(ii) Determination of which capital gains are offset by net capital losses from sources outside the United States. For purposes of paragraph (d)(1) of this section, in order to determine the capital gain net income offset by net capital losses from sources outside the United States, the following rules shall apply in the following order:

(i) Net capital losses from sources outside the United States in each separate category rate group shall be netted against capital gain net income from sources outside the United States from the same rate group in other separate categories.

(ii) Capital losses from sources within the United States shall be netted against capital gains from sources within the United States in the same rate group.

(iii) Net capital losses from sources outside the United States in excess of the amounts netted against capital gains under paragraph (d)(2)(i) of this section shall be netted against capital gains from sources outside the United States in the passive category.
section shall be netted against the taxpayer’s remaining capital gains from sources within and outside the United States in the following order, and without regard to any net capital losses, from any rate group, from sources within the United States—

(A) First against capital gain net income from sources within the United States in the same rate group;

(B) Next, against capital gain net income in other rate groups, in the order in which capital losses offset capital gains for purposes of determining the taxpayer’s taxable income and without regard to whether such capital gain net income derives from sources within or outside the United States, as follows:

(1) A net capital loss in the short-term rate group is used first to offset any capital gain net income in the 28 percent rate group, then to offset capital gain net income in the 25 percent rate group, then to offset capital gain net income in the 15 percent rate group, and finally to offset capital gain net income in the 5 percent rate group.

(2) A net capital loss in the 28 percent rate group is used first to offset capital gain net income in the 25 percent rate group, then to offset capital gain net income in the 15 percent rate group, and finally to offset capital gain net income in the 5 percent rate group.

(3) A net capital loss in the 15 percent rate group is used first to offset capital gain net income in the 5 percent rate group, and then to offset capital gain net income in the 28 percent rate group, and finally to offset capital gain net income in the 25 percent rate group.

(iv) Net capital losses from sources outside the United States in any rate group, to the extent netted against capital gains in any other separate category under paragraph (d)(2)(i) of this section or against capital gains in the same or any other rate group under paragraph (d)(2)(iii) of this section, shall be treated as coming pro rata from each separate category that contains a net capital loss from sources outside the United States in that rate group. For example, assume that the taxpayer has $20 of net capital losses in the 15 percent rate group in the passive category and $40 of net capital losses in the 15 percent rate group in the general limitation category, both from sources outside the United States. Further assume that $50 of the total $60 net capital losses from sources outside the United States are netted against capital gain net income in the 28 percent rate group (from other separate categories or from sources within the United States). One-third of the $50 of such capital losses would be treated as coming from the passive category, and two-thirds of such $50 would be treated as coming from the general limitation category.

(v) In determining the capital gain net income offset by a net capital loss from sources outside the United States pursuant to this paragraph (d)(2), a taxpayer shall take into account any reduction to capital gain net income from sources outside the United States pursuant to paragraph (a) of this section and shall disregard any adjustments to such capital gain net income pursuant to paragraph (c)(1) of this section.

(vi) If at any time during a taxable year, tax is imposed under section 1(h) at a rate other than a rate of tax specified in this paragraph (d)(2), the principles of this paragraph (d)(2) shall apply to determine the capital gain net income offset by any net capital loss in a separate category rate group.

(vii) The determination of which capital gains are offset by capital losses from sources outside the United States under this paragraph (d)(2) is made solely in order to determine the appropriate rate-differential-based adjustments to such capital losses under this section and section 904(b), and does not change the source, allocation, or separate category of any such capital gain or loss for purposes of computing taxable income from sources within or outside the United States or for any other purpose.

(e) Qualified dividend income—(1) In general. A taxpayer that has taxable income (excluding net capital gain and qualified dividend income) for the taxable year and that qualifies for a reduced rate of tax under section 1(h) on its qualified dividend income (as defined in section 1(h)(11)) for the taxable year shall adjust the amount of such qualified dividend income in a manner consistent with the rules of paragraphs
(c)(1)(i) (first sentence) and (c)(2) of this section irrespective of whether such taxpayer has a net capital gain for the taxable year. For purposes of making adjustments pursuant to this paragraph (e), the special rule in paragraph (c)(1)(ii) of this section for taxpayers with a net long-term capital loss from sources within the United States shall be disregarded.

(2) Exception. A taxpayer that makes the election provided for in paragraph (b)(3) of this section shall not make adjustments pursuant to paragraph (e)(1) of this section. Additionally, a taxpayer other than a corporation that does not have a capital gain rate differential for the taxable year within the meaning of paragraph (b)(2) of this section may elect not to apply paragraph (e)(1) of this section if such taxpayer would have qualified for the election provided for in paragraph (b)(3) of this section had such taxpayer had a capital gain rate differential for the taxable year. Such a taxpayer shall be presumed to make the election provided for in the preceding sentence unless such taxpayer applies the rate differential adjustments provided for in paragraph (e)(1) of this section to the qualified dividend income in determining its foreign tax credit limitation for the taxable year.

(f) Definitions. For purposes of section 904(b) and this section, the following definitions apply:

1. Alternative tax rate. The term alternative tax rate means, with respect to any rate group, the rate applicable to that rate group under section 1(h) (for taxpayers other than corporations) or section 1201(a) (for corporations). For example, the alternative tax rate for unrecaptured section 1250 gain is 25 percent.

2. Net capital gain. For purposes of this section, net capital gain shall not include any qualified dividend income (as defined in section 1(h)(11)). See paragraph (e) of this section for rules relating to qualified dividend income.

3. Rate differential portion. The term rate differential portion with respect to capital gain net income from sources outside the United States in a separate category long-term rate group (or the applicable portion of such amount), net capital gain in a rate group, or capital gain net income in a long-term rate group, as the case may be, means the same proportion of such amount as—

   (i) The excess of the highest applicable tax rate (as defined in section 904(b)(3)(E)(ii)) over the alternative tax rate; bears to

   (ii) The highest applicable tax rate (as defined in section 904(b)(3)(E)(ii)).

(4) Rate group. For purposes of this section, the term rate group means:

1. Short-term capital gains or losses. With respect to a short-term capital gain or loss, the rate group is the short-term rate group.

2. Long-term capital gains. With respect to a long-term capital gain, the rate group is the particular rate of tax to which such gain is subject under section 1(h). Such a rate group is a long-term rate group. For example, the 28 percent rate group of capital gain net income from sources outside the United States consists of the capital gain net income from sources outside the United States that is subject to tax at a rate of 28 percent under section 1(h).

   Such 28 percent rate group is a long-term rate group. If a taxpayer has long-term capital gains that may be subject to tax at more than one rate under section 1(h) and the taxpayer’s net capital gain attributable to such long-term capital gains and any qualified dividend income are taxed at one rate pursuant to section 1(h), then all of such long-term capital gains shall be treated as long-term capital gains in that one rate group. If a taxpayer has long-term capital gains that may be subject to tax at more than one rate of tax under section 1(h), then all of such long-term capital gains and any qualified dividend income are taxed at one rate of tax under section 1(h), then all of such long-term capital gains shall be treated as long-term capital gains in that one rate group.

   a. For example, under the section 1(h) rates in effect for tax years beginning in 2004, a long-term capital gain (other than a
long-term capital gain described in section 1(h)(4)(A) or (h)(6) may be subject to tax at 5 percent or 15 percent.

(iii) Long-term capital losses. With respect to a long-term capital loss, a loss described in section 1(h)(4)(B)(i) (collectibles loss) or (iii) (long-term capital loss carryover) is a loss in the 28 percent rate group. All other long-term capital losses shall be treated as losses in the highest rate group in effect under section 1(h) for the tax year with respect to long-term capital gains other than long-term capital gains described in section 1(h)(4)(A) or (h)(6).

For example, under the section 1(h) rates in effect for tax years beginning in 2004, a long-term capital loss not described in section 1(h)(4)(B)(i) or (iii) shall be treated as a loss in the 15 percent rate group.

(5) Terms used in sections 1(h), 904(b) or 1222. For purposes of this section, any term used in this section and also used in section 1(h), section 904(b) or section 1222 shall have the same meaning given such term by section 1(h), 904(b) or 1222, respectively, except as otherwise provided in this section.

(g) Examples. The following examples illustrate the provisions of this section. In these examples, the rate differential adjustment is shown as a fraction, the numerator of which is the alternative tax rate percentage and the denominator of which is 35 percent (assumed to be the highest applicable tax rate for individuals under section 1). Finally, all dollar amounts in the examples are abbreviated from amounts in the thousands (for example, $50 represents $50,000). The examples are as follows:

Example 1. (i) AA, an individual, has items from sources outside the United States only in the passive category for the taxable year. AA has $1000 of long-term capital gains from sources outside the United States that are subject to tax at a rate of 15 percent under section 1(h). AA has $700 of long-term capital losses from sources outside the United States, which are not described in section 1(h)(4)(B)(i) or (iii). For the same taxable year, AA has $800 of long-term capital gains from sources within the United States that are taxed at a rate of 28 percent under section 1(h). AA also has $100 of long-term capital losses from sources within the United States, which are not described in section 1(h)(4)(B)(i) or (iii). AA also has $500 of ordinary income from sources within the United States. The highest tax rate in effect under section 1(h) for the taxable year with respect to long-term capital gains other than long-term capital gains described in section 1(h)(4)(A) or (h)(6) is 15 percent. Accordingly, AA’s long-term capital losses are in the 15 percent rate group.

(ii) AA’s items of ordinary income, capital gain and capital loss for the taxable year are summarized in the following table:

<table>
<thead>
<tr>
<th>Source</th>
<th>U.S.</th>
<th>Foreign source: passive</th>
</tr>
</thead>
<tbody>
<tr>
<td>15% rate group</td>
<td>($100)</td>
<td>$1,000</td>
</tr>
<tr>
<td>28% rate group</td>
<td>800</td>
<td>(700)</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>500</td>
<td></td>
</tr>
</tbody>
</table>

(iii) AA’s capital gain net income from sources outside the United States ($300) does not exceed AA’s capital gain net income from all sources ($1,000). Therefore, paragraph (a)(1) of this section does not require any reduction of AA’s capital gain net income in the passive category.

(iv) In computing AA’s taxable income from sources outside the United States in the numerator of the section 904(a) foreign tax credit limitation fraction for the passive category, AA’s $300 of capital gain net income in the 15 rate group in the passive category must be adjusted as required under paragraph (c)(1) of this section. AA adjusts the $300 of capital gain net income using 15 percent as the alternative tax rate, as follows: $300 (15% x 35%)

(v) In computing AA’s entire taxable income in the denominator of the section 904(a) foreign tax credit limitation fraction, AA combines the $300 of capital gain net income from sources outside the United States and the $100 net capital loss from sources within the United States in the same rate group (15 percent). AA must adjust the resulting $400 ($300 + $100) of net capital gain in the 15 rate group as required under paragraph (c)(2) of this section, using 15 percent as the alternative tax rate, as follows: $200 (15% x 35%). AA must also adjust the $800 of net capital gain in the 28 percent rate group, using 28 percent as the alternative tax rate, as follows: $800 (28% x 35%). AA must also include ordinary income from sources outside the United States in the numerator, and ordinary income from all sources in the denominator, of the foreign tax credit limitation fraction.

(vi) AA’s passive category foreign tax credit limitation fraction is $128.58/$1225.72, computed as follows:
Example 2. (i) BB, an individual, has the following items of ordinary income, capital gain, and capital loss for the taxable year:

<table>
<thead>
<tr>
<th>U.S. source</th>
<th>Foreign source</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>Passive</td>
</tr>
<tr>
<td>15% rate group</td>
<td>$300</td>
</tr>
<tr>
<td>25% rate group</td>
<td>200</td>
</tr>
<tr>
<td>28% rate group</td>
<td>500</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>1,000</td>
</tr>
</tbody>
</table>

(ii) BB’s capital gain net income from sources outside the United States in the aggregate (zero, since losses exceed gains) does not exceed BB’s capital gain net income from all sources ($300). Therefore, paragraph (a)(1) of this section does not require any reduction of BB’s capital gain net income in the passive category.

(iii) In computing BB’s taxable income from sources outside the United States in the numerators of the section 904(a) foreign tax credit limitation fractions for the passive and general limitation categories, BB must adjust capital gain net income from sources outside the United States in each separate category long-term rate group and net capital losses from sources outside the United States in each separate category rate group as provided in paragraphs (c)(1) and (d) of this section.

(A) The $100 of capital gain net income in the 15 percent rate group in the passive category is adjusted under paragraph (c)(1) of this section as follows: $100 (15%/35%).

(B) BB must adjust the net capital losses in the 15 percent and 28 percent rate groups in the general limitation category in accordance with the ordering rules contained in paragraph (d)(2) of this section. Under paragraph (d)(2)(i) of this section, BB’s net capital loss in the 15 percent rate group is netted against capital gain net income from sources outside the United States. Thus, $100 of the $500 net capital loss in the 15 percent rate group from sources within the United States is adjusted under paragraph (d)(1) of this section as follows: $100 (15%/35%). Similarly, the $300 of net capital loss in the 28 percent rate group from sources within the United States is adjusted under paragraph (d)(1) of this section as follows: $300 (28%/35%).

(D) Finally, under paragraph (d)(2)(iii)(B) of this section, the remaining net capital losses in a separate category rate group are netted against capital gain net income from other rate groups from sources within and outside the United States. The $300 net capital loss is adjusted under paragraph (d)(1) of this section as follows: $300 (28%/35%).

(iv) In computing BB’s entire taxable income in the denominator of the section 904(a) foreign tax credit limitation fractions, BB must adjust net capital gain by netting all of BB’s capital gains and losses, from sources within and outside the United States, and adjusting any remaining net capital gains, on rate group, under paragraph (c)(2) of this section. BB must also include foreign source ordinary income in the numerators, and ordinary income from all sources in the denominator, of the foreign tax credit limitation fractions. The denominator of BB’s foreign tax credit limitation fractions reflects $2,000 of ordinary income from all sources, $100 of net capital gain from sources outside the United States, and $1,000 of net capital gain from sources within the United States. Thus, $300 of the $500 net capital loss in the 15 percent rate group in the general limitation category offsets $300 of capital gain net income in the 15 percent rate group from sources within the United States. Accordingly, $300 of the $500 net capital loss is adjusted under paragraph (d)(1) of this section as follows: $300 (15%/35%). Similarly, the $300 of net capital loss in the 28 percent rate group in the general limitation category offsets $300 of capital gain net income in the 28 percent rate group from sources within the United States. Therefore, paragraph (d)(2)(i) of this section as follows: $100 (28%/35%).

$300 (15%/35%) + $500 + $200 (15%/35%) + $800 (28%/35%)
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taxed at the 28% rate and adjusted as follows: $100 (28%/35%), and $200 of net capital gain taxed at the 25% rate and adjusted as follows: $200 (25%/35%).

(v) BB’s foreign tax credit limitation fraction for the general limitation category is $8,56/\$2222.86, computed as follows:

\[
\begin{align*}
500 - 100 (15\%/35\%) - 300 (15\%/35\%) - 300 (28\%/35\%) - 100 (28\%/35\%) \\
1,000 + 500 + 500 + 100 (28\%/35\%) + 200 (25\%/35\%)
\end{align*}
\]

(vi) BB’s foreign tax credit limitation fraction for the passive category is $542.86/\$2222.86, computed as follows:

\[
\begin{align*}
500 - 100 (15\%/35\%) - 300 (15\%/35\%) - 300 (28\%/35\%) - 100 (28\%/35\%) \\
1,000 + 500 + 500 + 100 (28\%/35\%) + 200 (25\%/35\%)
\end{align*}
\]

Example 3. (i) CC, an individual, has the following items of ordinary income, capital gain, and capital loss for the taxable year:

<table>
<thead>
<tr>
<th>U.S. source</th>
<th>Foreign source</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>Passive</td>
</tr>
<tr>
<td>15% rate group</td>
<td>$300</td>
</tr>
<tr>
<td>25% rate group</td>
<td>$200</td>
</tr>
<tr>
<td>28% rate group</td>
<td>$500</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>$1,000</td>
</tr>
</tbody>
</table>

(ii) CC’s capital gain net income from sources outside the United States (zero, since losses exceed gains) does not exceed CC’s capital gain net income from all sources ($100). Therefore, paragraph (a)(1) of this section does not require any adjustment.

(iii) In computing CC’s taxable income from sources outside the United States in the numerators of the section 904(a) foreign tax credit limitation fractions for the passive and general limitation categories, CC must adjust capital gain net income from sources outside the United States in each separate category long-term rate group and net capital losses from sources outside the United States in each separate category rate group as provided in paragraphs (c)(1) and (d) of this section.

(A) CC must adjust the $50 of capital gain net income in the 28 percent rate group in the passive category pursuant to paragraph (c)(1) of this section as follows: $50 (28%/35%).

(B) Under paragraph (d)(2)(i) of this section, $50 of CC’s $150 net capital loss in the 28 percent rate group in the general limitation category offsets $50 of capital gain net income in the 28 percent rate group in the passive category. Thus, $50 of the $150 net capital loss is adjusted as follows: $50 (28%/35%). Next, under paragraph (d)(2)(iii)(A) of this section, the remaining $100 of net capital loss in the 28 percent rate group in the general limitation category offsets $100 of capital gain net income in the 28 percent rate group from sources within the United States. Thus, the remaining $100 of net capital loss is adjusted as follows: $100 (28%/35%).

(C) Under paragraphs (d)(2)(iii)(A) and (d)(2)(iv) of this section, the net capital losses in the 15 percent rate group in the passive and general limitation categories offset on a pro rata basis the $300 of capital gain net income in the 15 percent rate group from sources within the United States. The proportionate amount of the $720 net capital loss ($720/0800 of $300, or $270) is adjusted as follows: $270 (15%/35%). The proportionate amount of the $80 net capital loss ($80/800 of $400, or $30) is adjusted as follows: $30 (15%/35%).

(D) Of the remaining $500 of net capital loss in the 15 percent rate group in the general limitation and passive categories, $400 offsets the remaining $400 of capital gain net income in the 28 percent rate group from sources within the United States under paragraph (d)(2)(iii)(B)(3) of this section. The proportionate amount of the $720 net capital loss ($720/0800 of $400, or $360) is adjusted as follows: $360 (28%/35%). The proportionate
amount of the $80 net capital loss ($80/$800 of $400, or $40) is adjusted as follows: $40 (28%/35%).

(E) Under paragraph (d)(2)(ii)(B)(3) of this section, the remaining $100 of net capital loss in the 15 percent rate group in the general limitation and passive limitation categories offsets $100 of capital gain net income in the 25 percent rate group from sources within the United States. The proportionate amount of the $720 net capital loss ($720/$800 of $100, or $90) is adjusted as follows: $90 (25%/35%). The proportionate amount of the $80 net capital loss ($80/$800 of $100 or $10) is adjusted as follows: $10 (25%/35%).

(iv) In computing CC’s entire taxable income in the denominator of the section 904(a) foreign tax credit limitation fractions, CC must adjust capital gain net income by netting all of CC’s capital gains and losses, from sources within and outside the United States, and adjusting any remaining net capital gains, based on rate group, under paragraph (c)(2) of this section. The denominator of CC’s foreign tax credit limitation fractions reflects $2,500 of ordinary income from all sources and $100 of net capital gain taxed at the 25% rate and adjusted as follows: $100 (25%/35%).

(v) CC’s foreign tax credit limitation fraction for the general limitation category is $412/$2,571.42, computed as follows:

\[
\frac{1,000 - 50(28/35) - 100(28/35) - 270(15/35) - 360(28/35) - 90(25/35)}{1,000 + 1,000 + 500 + 100(25/35)}
\]

(vi) CC’s foreign tax credit limitation fraction for the passive category is $488.00/$2,571.42, computed as follows:

\[
\frac{500 + 50(28/35) - 30(15/35) - 40(28/35) - 10(25/35)}{1,000 + 1,000 + 500 + 100(25/35)}
\]

Example 4. (i) DD, an individual, has the following items of ordinary income, capital gain and capital loss for the taxable year:

<table>
<thead>
<tr>
<th>U.S. source</th>
<th>Foreign source</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>Passive</td>
</tr>
<tr>
<td>Short-term</td>
<td></td>
</tr>
<tr>
<td>Ordinary income</td>
<td></td>
</tr>
</tbody>
</table>

15% rate group

<table>
<thead>
<tr>
<th>U.S. source</th>
<th>Foreign source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term</td>
<td></td>
</tr>
<tr>
<td>Ordinary income</td>
<td></td>
</tr>
</tbody>
</table>

(ii) DD’s capital gain net income from outside the United States ($800) exceeds DD’s capital gain net income from all sources ($720). Pursuant to paragraph (a)(1)(i)(A) of this section, DD must apportion the $80 of excess of capital gain net income from sources outside the United States between the general limitation and passive categories based on the amount of capital gain net income in each separate category. Thus, one-half ($400/$800 of $100, or $40) is apportioned to the general limitation category and one-half ($400/$800 of $80, or $40) is apportioned to the passive category. The $40 apportioned to the general limitation category reduces DD’s $500 short-term capital gain in the general limitation category to $460. Pursuant to paragraph (a)(1)(i)(B) of this section, the $40 apportioned to the passive category must be apportioned further between the capital gain net income in the short-term rate group and the 15 percent rate group based on the relative amounts of capital gain net income in each rate group. Thus, one-fourth ($100/$400 of $40 or $10) is apportioned to the short-term rate group and three-fourths ($300/$400 of $40 or $30) is apportioned to the 15 percent rate group. DD’s passive category includes $90 of short-term capital gain and $270 of capital gain net income in the 15% rate group.

(iii) Because DD has a net long-term capital loss from sources within the United States ($80) and also has short-term capital gains, DD must apply the provisions of paragraph (c)(1)(ii) of this section to determine the amount of DD’s $270 of capital gain net
income in the 15% rate group that is subject to a rate differential adjustment under paragraph (c)(1) of this section. Under Step 1, the U.S. long-term capital loss adjustment amount is $50 ($300–$250). Under Step 2, the applicable rate differential amount is the excess of the remaining capital gain net income over the U.S. long-term adjustment amount. Thus, the applicable rate differential amount is $220 ($270 – $50). In computing DD’s taxable income from sources outside the United States in the numerator of the section 904(a) foreign tax credit limitation fraction for the passive category, DD must adjust this amount as follows: $220 (15%/35%). DD does not adjust the remaining $50 of capital gain net income in the 15% rate group. (iv) The amount of capital gain net income in the 15% rate group in the passive category, taking into account the adjustment pursuant to paragraph (a)(1) of this section and disregarding the adjustment pursuant to paragraph (c)(1) of this section, is $270. Under paragraphs (d)(2)(i) and (d)(2)(v) of this section, DD’s $100 net capital loss in the 15% rate group in the general limitation category offsets capital gain net income in the 15% rate group in the passive category. Accordingly, the $100 of net capital loss is adjusted as follows: $100 (15%/35%).

(v) In computing DD’s entire taxable income in the denominator of the section 904(a) foreign tax credit limitation fractions, DD must adjust capital gain net income by netting all of DD’s capital gains and losses from sources within and outside the United States, and adjusting the remaining net capital gain in each rate group pursuant to paragraph (c)(2) of this section. The denominator of DD’s foreign tax credit limitation fraction reflects $500 of ordinary income from all sources. $600 of short-term capital gain and $120 of net capital gain in the 15 percent rate group adjusted as follows: $120 (15%/35%).

(vi) DD’s foreign tax credit limitation fraction for the general limitation category is $417.14/$1151.43, computed as follows:

\[
\begin{align*}
\text{Ordinary income} & \quad 500 \\
\text{Short-term} & \quad 30 \\
\text{Passive} & \quad 100 \\
\text{Foreign source} & \quad 799 \\
\text{U.S. source} & \quad 100 \\
\text{15% rate group} & \quad 140 \\
\text{28% rate group} & \quad 200 \\
\text{30% rate group} & \quad 30 \\
\text{15% rate group} & \quad 140 \\
\text{28% rate group} & \quad 200 \\
\text{30% rate group} & \quad 30
\end{align*}
\]

(i) EE, an individual, has the following items of ordinary income, capital gain and capital loss for the taxable year:

\[
\begin{align*}
\text{Ordinary income} & \quad 500 \\
\text{Short-term} & \quad 30 \\
\text{Passive} & \quad 100 \\
\text{Foreign source} & \quad 799 \\
\text{U.S. source} & \quad 100 \\
\text{15% rate group} & \quad 140 \\
\text{28% rate group} & \quad 200 \\
\text{30% rate group} & \quad 30 \\
\text{15% rate group} & \quad 140 \\
\text{28% rate group} & \quad 200 \\
\text{30% rate group} & \quad 30
\end{align*}
\]

(ii) EE’s capital gain net income from sources outside the United States ($600) exceeds EE’s capital gain net income from all sources ($480). Pursuant to paragraph (a)(1)(ii) of this section, the $120 of excess capital gain net income from sources outside the United States is allocated as a reduction to the passive category and must be apportioned pro rata to each rate group within the passive category with capital gain net income. Thus, $20 ($100/$600 of $120) is apportioned to the short-term rate group, $60 ($300/$600 of $120) is apportioned to the 15 percent rate group and $40 ($200/$600 of $120) is apportioned to the 28 percent rate group. After application of paragraph (a)(1) of this section, EE has $80 of capital gain net income in the short-term rate group, $240 of capital gain net income in the 15 percent rate group and $160 of capital gain net income in the 28 percent rate group.

(iii) Because EE has a net long-term capital loss from sources within the United States ($150) and also has short-term capital gains, EE must apply the provisions of paragraph (c)(1)(ii) of this section to determine the amount of EE’s remaining $400 ($240 + $160) of capital gain net income in long-term rate groups in the passive category that is subject to a rate differential adjustment to a rate differential adjustment. Under Step 1, the U.S. long-term capital loss adjustment amount is $50 ($150+$100). Under Step 2, EE must apportion this amount pro rata to each long-term rate group within the passive category with capital gain net income. Thus, $30 ($240/$400 of $50) is apportioned to the 28 percent rate group. The applicable rate differential amount for the 15 percent rate group is $210 ($240 – $30). The applicable rate differential amount for the 28 percent rate group is $140 ($160 – $20).

(iv) Pursuant to paragraph (c)(1)(ii) of this section, EE must adjust $210 of the $240 capital gain in the 15 percent rate group as follows: $210 (15%/35%). EE does not adjust the remaining $30. Pursuant to paragraph (c)(1)(ii) of this section, EE must adjust $140 of the $160 capital gain in the 28 percent rate group as follows: $140 (28%/35%). EE does not adjust the remaining $20.

(v) In computing EE’s entire taxable income in the denominator of the section 904(a) foreign tax credit limitation fractions, EE must adjust capital gain net income by netting all of EE’s capital gains and losses from sources within and outside the United
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States, and adjusting the remaining net capital gain in each rate group pursuant to paragraph (c)(2) of this section. The denominator of EE’s foreign tax credit limitation fraction reflects $500 of ordinary income from all sources, $130 of short-term capital gain, $150 of net capital gain in the 15 percent rate group adjusted as follows: $150 (15%/35%), and $200 of net capital gain in the 28 percent rate group adjusted as follows: $200 (28%/35%).

(vi) EE’s foreign tax credit limitation fraction for the passive category is $332/$654.29, computed as follows:

\[
\frac{80 + 210 (15%/35%) + 30 + 140 (28%/35%) + 20}{500 + 130 + 150 (15%/35%) + 200 (28%/35%)}
\]

(h) Coordination with section 904(f)—(1) In general. Section 904(b) and this section shall apply before the provisions of section 904(f) as follows:

(i) The amount of a taxpayer’s separate limitation income or loss in each separate category, the amount of overall foreign loss, and the amount of any additions to or recapture of separate limitation loss or overall foreign loss accounts pursuant to section 904(f) shall be determined after applying paragraphs (a), (c)(1), (d) and (e) of this section to adjust capital gains and losses and qualified dividend income from sources outside the United States in each separate category.

(ii) To the extent a capital loss from sources within the United States reduces a taxpayer’s foreign source taxable income under paragraph (a)(1) of this section, such capital loss shall be disregarded in determining the amount of a taxpayer’s taxable income from sources within the United States for purposes of computing the amount of any additions to the taxpayer’s overall foreign loss accounts.

(iii) In determining the amount of a taxpayer’s loss from sources in the United States under section 904(f)(5)(D) (section 904(f)(5)(D) amount), the taxpayer shall make appropriate adjustments to capital gains and losses from sources within the United States to reflect adjustments pursuant to section 904(b)(2) and this section. Therefore, for purposes of section 904, a taxpayer’s section 904(f)(5)(D) amount shall be equal to the excess of the taxpayer’s foreign source taxable income in all separate categories in the aggregate for the taxable year (taking into account any adjustments pursuant to sections 904(b)(2) and this section) over the taxpayer’s entire taxable income for the taxable year (taking into account any adjustments pursuant to paragraphs (c)(2) and (e) of this section).

(2) Examples. The following examples illustrate the application of paragraph (h) of this section:

Example 1. (i) W, an individual, has the following items of ordinary income, capital gain, and capital loss for the taxable year:

<table>
<thead>
<tr>
<th>U.S. source</th>
<th>Foreign source</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>Passive</td>
</tr>
<tr>
<td>15% rate group</td>
<td>$500</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>900</td>
</tr>
</tbody>
</table>

(ii) In computing W’s taxable income from sources outside the United States for purposes of section 904 and this section, W must adjust the capital gain net income and net capital loss in each separate category as provided in paragraphs (c)(1) and (d) of this section. Thus, W must adjust the $900 of capital gain net income in the general limitation category and the $142.86 of foreign source taxable income in the general limitation category.

(iii) After the adjustment to W’s net capital loss in the passive category, W has a $171.43 separate limitation loss in the passive category. After the adjustment to W’s capital gain in the general limitation category, W has $142.86 of foreign source taxable income in the general limitation category. Thus, $142.86 of the separate limitation loss
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reduces foreign source taxable income in the general limitation category. See section 904(f)(5)(B). W adds $142.86 to the separate limitation loss account for the passive category. The remaining $28.57 of the separate limitation loss reduces income from sources within the United States. See section 904(f)(5)(A). Thus, W adds $28.57 to the overall foreign loss account for the passive category.

Example 2. (i) X, a corporation, has the following items of ordinary income, ordinary loss, capital gain and capital loss for the taxable year: foreign source:

<table>
<thead>
<tr>
<th>U.S. source</th>
<th>Foreign source: general</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital gain</td>
<td>($500) $700</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>1100 (1000)</td>
</tr>
</tbody>
</table>

(ii) X’s capital gain net income from sources outside the United States ($700) exceeds X’s capital gain net income from all sources ($200). Pursuant to paragraph (a)(1) of this section, X must reduce the $700 capital gain in the general limitation category by $500. After the adjustment, X has $200 of capital gain net income remaining in the general limitation category. Thus, X has an overall foreign loss attributable to the general limitation category of $800.

(iii) For purposes of computing the amount of the addition to X’s overall foreign loss account for the general limitation category, the $500 capital loss from sources within the United States is disregarded and X’s taxable income from sources within the United States is $1100. Accordingly, X must increase its overall foreign loss account for the general limitation category by $800.

Example 3. (i) Y, a corporation, has the following items of ordinary income, ordinary loss, capital gain and capital loss for the taxable year:

<table>
<thead>
<tr>
<th>U.S. source</th>
<th>Foreign source: passive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital gain</td>
<td>($100) $200</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>(200) 500</td>
</tr>
</tbody>
</table>

(ii) Y’s capital gain net income from sources outside the United States ($200) exceeds Y’s capital gain net income from all sources ($100). Pursuant to paragraph (a)(1) of this section, Y must reduce the $200 capital gain in the passive category by $100. Y has $100 of capital gain net income remaining in the passive category.

(iii) Y is not required to make adjustments pursuant to paragraph (c), (d) or (e) of this section. See paragraphs (b) and (e) of this section. Y’s foreign source taxable income in the passive category after the adjustment pursuant to paragraph (a)(1) of this section is $600. Y’s entire taxable income for the taxable year is $800.

Example 4. (i) Z, an individual, has the following items of ordinary income, ordinary loss and capital gain for the taxable year:

(ii) Z’s foreign source taxable income in all of Z’s separate categories in the aggregate for the taxable year is $600. (There are no adjustments to Z’s foreign source taxable income pursuant to paragraph (a)(1), (c)(1), (d) or (e) of this section.)

(iii) In computing Z’s entire taxable income in the denominator of the section 904(d) foreign tax credit limitation fractions, Z must adjust the $100 of net capital gain in the 15 percent rate group pursuant to paragraph (c)(2) of this section as follows: $100 (15%/35%). Thus, Z’s entire taxable income for the taxable year, taking into account the adjustment pursuant to paragraph (c)(2) of this section, is $442.86.

Example 5. (i) O, an individual, has the following items of ordinary income, ordinary loss and capital gain for the taxable year:
(ii) In determining O's taxable income from sources outside the United States, O must reduce the $500 capital limitation to $214.29 ($500 \times \frac{15\%}{35\%}) pursuant to paragraph (d) of this section. Taking this adjustment into account, O’s foreign source taxable income in all of O’s separate categories in the aggregate is $1285.71 ($1000 - $214.29 + $500).

(iii) In computing O’s entire taxable income in the denominator of the section 904(a) foreign tax credit limitation fraction, O must reduce the $600 of net capital gain for the year to $257.14 ($600 \times \frac{15\%}{35\%}) pursuant to paragraph (c)(2) of this section. Taking this adjustment into account, O’s entire taxable income for the year is $757.14 ($500 + $257.14).

(iv) Therefore, O’s section 904(f)(3)(D) amount is $328.57 ($1285.71 - $757.14). This amount must be allocated pro rata to O’s $500 of income in the passive category and O’s $785.71 of adjusted income in the general limitation category in accordance with section 904(f)(5)(D).

Effective date. This section shall apply to taxable years beginning after July 20, 2004. Taxpayers may choose to apply this section and section 904(b)–1 to taxable years ending after July 20, 2004.


§ 1.904(f)–0 Outline of regulation provisions.

This section lists the headings for §§1.904(f)–1 through 1.904(f)–8 and 1.904(f)–12.

§ 1.904(f)–0 Outline of regulation provisions.

This section lists the headings for §§1.904(f)–1 through 1.904(f)–8 and 1.904(f)–12.

§ 1.904(f)–1 Overall foreign loss and the overall foreign loss account.

(a) Overview of regulations.

(1) General rule.

(2) Separate limitation defined.

(b) Overall foreign loss accounts.

(c) Determination of a taxpayer’s overall foreign loss.

(1) Overall foreign loss defined.

(2) Separate limitation defined.

(3) Method of allocation and apportionment of deductions.

(d) Additions to the overall foreign loss account.

§ 1.904(f)–2 Special rules for application of section 904(b) to alternative minimum tax foreign tax credit.

(a) Application of section 904(b)(2)(B) adjustments. Section 904(b)(2)(B) shall apply for purposes of determining the alternative minimum tax foreign tax credit under section 59 (regardless of whether or not the taxpayer has made an election under section 59(a)(4)).

(b) Use of alternative minimum tax rules—(1) Taxpayers other than corporations. In the case of a taxpayer other than a corporation, for purposes of determining the alternative minimum tax foreign tax credit under section 59—

(i) Section 904(b)(3)(D)(i) shall be applied by using the language “section 55(b)(3)(E)(ii)(I)” instead of “subsection (h) of section 1”;

(ii) Section 904(b)(3)(E)(ii)(I) shall be applied by using the language “section 55(b)(1)(A)(i)” instead of “subsection (a), (b), (c), (d), or (e) of section 1 (whichever applies)”;

(iii) Section 904(b)(3)(E)(ii)(I) shall be applied by using the language “the alternative rate of tax determined under section 55(b)(3)” instead of “the alternative rate of tax determined under section 1(b)”.

(2) Corporate taxpayers. In the case of a corporation, for purposes of determining the alternative minimum tax foreign tax credit under section 59, section 904(b)(3)(E)(ii)(II) shall be applied by using the language “section 55(b)(1)(B)” instead of “section 11(b)”. 