Department of the Treasury
Internal Revenue Service

Instructions for Form 8621

(Revised April 1997)

Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund

Section references are to the Internal Revenue Code unless otherwise noted.

Paperwork Reduction Act Notice.— We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential as required by Code section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping .... 12 hr., 12 min.

Learning about the law or the form .... 3 hr., 41 min.

Preparing and sending the form to the IRS .... 4 hr., 2 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743–0001. **DO NOT** send the tax form to this office. Instead, see **When and Where To File** below.

Changes To Note

- The Small Business Job Protection Act of 1996 clarified that foreign trade income of foreign sales corporations (FSCs) and export trade income of export trade corporations (ETCs) is not passive income for purposes of the definition of a passive foreign investment company (PFIC) (section 1296(b)(2)(D)). This provision is effective for tax years of foreign corporations beginning after 1986.
- Final regulations have been issued that provide rules for making the deemed sale and deemed dividend elections under section 1291(d)(2). These regulations apply to a shareholder of a PFIC that elects under section 1295 to treat the PFIC as a qualified electing fund (QEF) for a tax year after the first tax year during the shareholder's holding period that the foreign corporation was a PFIC. These regulations, effective December 27, 1996, are applicable as of April 1, 1995. For more information, see Regulations sections 1.1291–9 and 1.1291–10.

General Instructions

Who Must File

Generally, a U.S. person must file Form 8621 for each tax year in which that U.S. person is a shareholder in a PFIC. A separate Form 8621 must be filed for each PFIC in which stock is held.

The PFIC provisions apply to U.S. persons who are direct or indirect shareholders of a PFIC. Generally, a U.S. person is an indirect shareholder of a PFIC if it is:

1. A direct or indirect owner of a pass-through entity that is a direct or indirect shareholder of a PFIC;

2. A shareholder of a PFIC that is a shareholder of another PFIC; or

3. A 50% or more shareholder in a non-PFIC foreign corporation that is a shareholder of a PFIC.

Interest holder of pass-through entities.— The following interest holders must file Form 8621:

1. A U.S. person that is an interest holder of a foreign pass-through entity that is a direct or indirect shareholder of a PFIC;

2. A U.S. person that is considered (under sections 671 through 679) the owner of PFIC stock held in trust; and

3. A U.S. partnership, S corporation, trust (other than a trust that is subject to sections 671 through 679 for the PFIC stock), or estate that is a direct or indirect owner of a PFIC.

However, U.S. persons that are interest holders of pass-through entities described in **3** above must file Form 8621 if the pass-through entity fails to file or the U.S. person is required to recognize any income under either section 1291 or section 1293.

Chain of ownership.— If the shareholder owns one PFIC and through that PFIC owns one or more other PFICs, the shareholder must either file a Form 8621 for each PFIC in the chain, or complete Form 8621 for the first PFIC and, in an attachment, provide the information required on Form 8621 for each of the other PFICs in the chain.

Shareholder of a section 1291 fund.— A direct or indirect shareholder of a PFIC that is a section 1291 fund uses Form 8621 to report a PFIC distribution or disposition. An indirect shareholder may be taxed on the distribution paid to the direct owner of the section 1291 fund and on a disposition of the stock indirectly owned.

Shareholder of a QEF.— A direct or indirect shareholder that elects to be treated as a shareholder of a QEF must file Form 8621 as part of its election, and with its return for each succeeding tax year. The shareholder of the QEF uses Form 8621 to report its share of the current earnings of the QEF and to make the election to extend the time for payment of tax on its share of the undistributed earnings of the QEF. Certain shareholders of a QEF also use Form 8621 to make a deemed dividend or deemed sale election to purge the section 1291 fund years from their holding period.

When and Where To File

Form 8621 must be filed by the due date, including extensions, of the shareholder's income tax return. File two copies of the form. Attach one copy to the shareholder's income tax return. Send the other copy to the Internal Revenue Service Center, P.O. Box 21086, Philadelphia, PA 19114.

If you are not required to file an income tax return or other return for the tax year, file one copy of Form 8621 with the Internal Revenue Service Center, P.O. Box 21086, Philadelphia, PA 19114.

When To Make Elections

Generally, the Line 1 election must be made by the due date, including extensions, of the shareholder's income tax return for the first year the PFIC is treated as a QEF. However, see section 1295(b)(2) for an exception.

The Line 2 or Line 3 election must be made by the due date, including extensions, of the shareholder's original income tax return (or by filing an amended return within 3 years of the due date, as extended) for the tax year that includes the date of the deemed sale or deemed dividend.

Generally, the Line 4 election must be made by the due date, including extensions, of the shareholder's income tax return for the tax year for which the election is being made. See Regulations section 1.1294–1T(c)(2) for an exception.

The Line 5 election is made with the original return or by filing an amended return (within 3 years of the due date (as extended) of the shareholder's original return) for the tax year that includes the date of the deemed sale.

Definitions

Passive Foreign Investment Company (PFIC)

A foreign corporation is a PFIC if:

1. 75% or more of the corporation's gross income for its tax year is passive income (as defined in section 1296(b)); or

2. At least 50% of the average value of the corporation's assets for its tax year is attributable to assets used in the production of passive income or held for the production of passive income.

A controlled foreign corporation (CFC) must use the adjusted basis of its assets when determining PFIC status. Other foreign corporations use fair market value unless they elect to use the adjusted basis of their assets when determining if they are PFICs.

When determining if a foreign corporation that owns at least 25% (by value) of another corporation is a PFIC, the foreign corporation is treated as holding a proportionate share of the assets and as receiving a proportionate share of the income of the 25%-or-more owned corporation.

Qualified Electing Fund (QEF)

A PFIC is a QEF if the U.S. person who is a direct or indirect shareholder of the PFIC elected under section 1295 to treat the foreign corporation as a QEF for the PFIC's tax year that ends during the tax year of the shareholder for which the shareholder made the election. Once the election is made, it applies to all subsequent years that the foreign corporation is a PFIC. The election may be revoked only with the consent of the IRS. A separate QEF election must be made for each PFIC the shareholder wants to treat as a QEF.

Tax Consequences for Shareholders of a QEF

A shareholder of a QEF must include in gross income its share of the annual earnings of the QEF, but may elect to extend the time for payment of tax on undistributed earnings. Income from a QEF is computed in Part II of Form 8621.

A shareholder of a pedigreed QEF (defined in Regulations section 1.1291-9(j)(2)(ii)) only reports section 1293 amounts for tax years of the QEF in which it qualifies as a PFIC under section 1296(a). In contrast, a shareholder of an unpedigreed QEF (defined in Regulations section 1.1291-9(j)(2)(iii)) reports section 1293 amounts for each tax year of the foreign corporation because it is a PFIC under section 1297(b)(1), even if it does not qualify as a PFIC under section 1296(a).

Basis adjustments.— A shareholder's basis in the stock of a QEF is increased by the amount of earnings that is included in gross income and decreased by a distribution of previously taxed income.

Section 1291 Fund

A PFIC is a section 1291 fund if the shareholder did not elect to treat the PFIC as a QEF. A QEF may also be a section 1291 fund if the shareholder made the QEF election for a tax year after the foreign corporation's first tax year as a PFIC during the shareholder's holding period but did not make the Line 2 or Line 3 election.

Tax Consequences for Shareholders of a Section 1291 Fund

Shareholders of a section 1291 fund are subject to special rules when they receive a distribution from, or dispose of the stock of, a section 1291 fund. A distribution may be partly or wholly an excess distribution. Gain from the disposition of a section 1291 fund is treated as an excess distribution.

Excess distributions.— An excess distribution is the part of the distribution received in the current tax year that is greater than 125% of the average of the distributions made during the 3 preceding tax years. No part of a distribution received or deemed received during the first tax year of the shareholder's holding period of the stock will be treated as an excess distribution.

The excess distribution is determined on a per share basis. See section 1291(b)(3) for adjustments that are made when determining if a distribution is an excess distribution.

The excess distribution is allocated to each day in the shareholder's holding period of the stock of the section 1291 fund.

Portions of an excess distribution are treated differently. The portions allocated to the days in the current tax year and the shareholder's tax years in its holding period before the foreign corporation qualified as a PFIC (pre-PFIC years) are taxed as ordinary income. The portions allocated to the days in the shareholder's tax years (other than the current tax year) in its holding period when the foreign corporation was a PFIC are not included in income, but are subject to the deferred tax amount, as defined in section 1291(c). Excess distributions are computed in Part III of Form 8621.

Additional Information Required

A shareholder of a PFIC must attach certain information to Form 8621. This information includes:

1. The number of shares in each class of stock owned by the shareholder at the beginning of its tax year;

2. Any changes in the number of shares in each class of stock during its tax year and the dates of such changes; and

3. The number of shares in each class of stock at the end of its tax year.

Specific Instructions

Address and Identifying Number

Address.— Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the shareholder has a P.O. box, enter the box number instead of the street address.

Identifying number.— Individuals, enter a social security number or an IRS taxpayer identification number. All other entities, enter employer identification number.

Part I—Elections

Line 1–Election To Treat the PFIC as a QEF (Section 1295)

Who makes the election.— A U.S. person that owns stock of a PFIC, including a shareholder that owns stock of the PFIC in bearer form, may make this election.

In a chain of ownership, only the first U.S. person that owns stock in a PFIC may make the QEF election. For example, if a U.S. person is a partner in a U.S. partnership and the partnership is a shareholder in a PFIC, the election is made by the partnership. All U.S. persons that are partners in that partnership are bound by the QEF election. If a U.S. person is a partner in a foreign partnership, the QEF election is made by the U.S. person and binds only the electing person.

The common parent of an affiliated group of corporations that joins in the filing of a consolidated income tax return makes the QEF election for all members of the affiliated group that are shareholders in a PFIC. An election by a common parent is effective for all members of the group that own stock in the PFIC at the time the election is made and at any time thereafter.

Making the election.— To make the election

1. Check the box on line 1;

2. Attach the “Shareholder Section 1295 Election Statement,” the “PFIC Annual Information Statement ” (see below), and Form 8621 to a timely filed income tax return for the tax year the election is effective.

3. Attach a copy of the election statement to the duplicate Form 8621 sent to the Philadelphia Service Center at the time the election is made. See **When and Where To File** on page 1.

For more information on making the election, see Notice 88-125, 1988-2 C.B. 535.

Termination of the election.— The IRS may revoke the QEF election if the shareholder does not produce the following when requested:

1. Copies of the books and records of the PFIC substantiating that the PFIC's ordinary earnings and net capital gain are figured according to U.S. income tax principles; and

2. Copies of books and records to verify the shareholder's pro rata share of the QEF's ordinary earnings and net capital gain.

Shareholder Section 1295 Election Statement

Attach a statement to your income tax return with the words “Shareholder Section 1295 Election Statement” written at the top of the statement. Include the following:

1. A statement that you are making the section 1295 election.

2. The first tax year to which the election applies.

3. The first tax year of the PFIC to which the election applies.

4. The number of shares in each class of stock of the PFIC that you hold.

5. The country and date of incorporation of the PFIC.

PFIC Annual Information Statement

Generally, the PFIC Annual Information Statement must be filed with your income tax return for the first year for which the QEF election is made. It must also be filed with your return for the tax year for which the election is in effect (see **Exception,** below). The statement must include the following:

1. The first and last day of the PFIC's tax year that ends with or within your tax year.

2. Your pro rata share of the ordinary earnings and the net capital gain of the PFIC or sufficient information so that you can determine your share of ordinary earnings and net capital gain.

3. The amount of money and the fair market value of other property distributed or deemed distributed to you during the year.

4. A statement that the PFIC will permit you to inspect and copy its permanent books of accounts, records, and other documents so that it can be determined that the QEF's ordinary earnings and net capital gain are calculated according to U.S. income tax principles.

Exception. If you hold stock in a PFIC through a nominee or a shareholder of record, you may submit a statement issued by the nominee or shareholder of record instead of the PFIC Annual Information Statement. The statement must show your pro rata share of the PFIC's ordinary earnings and net capital gain. This statement is acceptable if the PFIC issues an annual information statement to the nominee or shareholder of record and the annual statement is the basis for the information contained in the statement issued by the nominee or shareholder of record.

Alternative Documentation

Occasionally, the IRS will consider requests for alternative documentation to verify the ordinary earnings and net capital gain of the PFIC. For more information, see Notice 88-125.

Line 2–Deemed Sale Election

A U.S. person that elected to treat a PFIC as a QEF for a foreign corporation's tax year following its first tax year as a PFIC included in the shareholder's holding period may make this election. A shareholder making this election is deemed to have sold the PFIC's stock as of the first day of the PFIC's first tax year as a QEF (the qualification date) for its fair market value. The gain from the deemed sale is taxed as an excess distribution. The election may be made for stock on which the shareholder will realize a loss, but that loss cannot be recognized. The basis of the stock is increased by the gain recognized, if any, and the holding period of the stock begins on the qualification date.

For more information on making this election, see Regulations section 1.1291-10.

Making the election.— To make the election, check the box on line 2. Enter the gain or loss on line 10f of Part III. If a gain is entered, complete the rest of Part III.

Line 3–Deemed Dividend Election

A U.S. person that elected to treat a PFIC that is also a CFC as a QEF for the foreign corporation's tax year following its first tax year as a PFIC included in the shareholder's holding period may make this election. A shareholder making this election is treated as receiving a dividend of its pro rata share of the post-1986 earnings and profits of the PFIC on the qualification date. The deemed dividend is taxed as an excess distribution, and is allocated only to the days in the shareholder's holding period that are both after 1986 and when the foreign corporation was a PFIC.

For purposes of this election, the term “post-1986 earnings and profits” means earnings and profits of the PFIC accumulated in tax years beginning after 1986 during which the CFC was a PFIC and while the shareholder held the stock, and ending on the day before the qualification date.

For purposes of the deemed dividend election, the shareholder's holding period is treated as ending on the day before the deemed dividend. The basis of the shareholder's stock is increased by the deemed dividend amount. The shareholder's holding period after the deemed dividend begins on the qualification date.

The post-1986 earnings and profits may be reduced (but not below zero) by the part thereof that the shareholder satisfactorily demonstrates was previously included in the income of a U.S. person. The shareholder demonstrates this by attaching to Form 8621 a statement listing:

1. The name, address, and identifying number of the U.S. person and the amount that was included in income;

2. The tax year in which the amount was included in income; and

3. The law under which the amount was previously included in income.

For more information on making this election, see Regulations section 1.1291-9.

Making the election.— To make the election, check the box on line 3. Enter the dividend on line 10e and complete the rest of Part III.

Line 4–Election To Extend Time for Payment of Tax on Undistributed Earnings

A shareholder of a QEF may elect to extend the time for payment of the tax on its share of the undistributed earnings of the fund for the current tax year. If a U.S. partnership is a shareholder of a QEF, the election is made at the partner level. If this election is made, interest will be imposed on the amount of the deferred tax.

The election cannot be made for any earnings on shares disposed of during the tax year or for a tax year that any portion of the shareholder's pro rata share of the fund's earnings is included in income under section 551 or section 951.

For more information, see Temporary Regulations section 1.1294-1T(d)(2)

Making the election.— To make the election, check the box on line 4 and complete Part II.

Line 5–Election To Recognize Gain on Deemed Sale of PFIC

This election may be made by a U.S. person that is a shareholder of a section 1291 fund that no longer qualifies as a PFIC under either the income or asset test of section 1296(a). A shareholder making this election is treated as selling the stock of the foreign corporation on the last day of the last tax year of the foreign corporation in which it qualified as a PFIC (termination date) for its fair market value on that date. The election is made for the tax year that includes the termination date. The gain from the deemed sale is taxed as an excess distribution. You may make the election for the stock on which you will realize a loss, but you may not recognize the loss. Your basis in the stock is increased by the gain recognized, if any, and the holding period of the stock begins on the day after the deemed sale.

For more information, see Temporary Regulations section 1.1297-3T(b)(2) .

Making the election.— To make the election, check the box on line 5. Enter the gain or loss on line 10f. If a gain, complete the rest of Part III. Also, see Part IV for annual reporting requirements for outstanding section 1294 elections.

Part II—Income From a QEF

Note: *All line references in Parts II and III to Form 1120 and Form 1040 are to the 1996 forms.*

Lines 6 and 7

Lines 6a and 7a.— Enter on lines 6a and 7a your pro rata share of the ordinary earnings and net capital gain of the QEF. The QEF should provide these amounts or information that will help you determine your pro rata share.

Lines 6b and 7b.— Your share of the ordinary earnings and the net capital gain of the QEF is reduced by the amounts you include in income under section 551 or 951 for the tax year with respect to the QEF. Your share of these amounts may also be reduced as provided in section 1293(g).

Line 6c.— This amount is treated as an ordinary dividend on your tax return.

Individuals, include this amount in the total on Form 1040, line 9.

Corporations, include this amount in the total on Form 1120, Schedule C, line 13.

Line 8

If you receive a distribution from the QEF during the current tax year, the distribution is first treated as a distribution out of the earnings and profits of the QEF accumulated during the year. If the total amount distributed (line 8b) exceeds the amount included in income (line 8a), the excess is treated as distributed out of the most recently accumulated earnings and profits and is taxable to you unless you satisfactorily demonstrate that the excess was previously included in the income of a U.S. person. To satisfactorily demonstrate this, the QEF shareholder must attach a statement to Form 8621 that includes:

1. The name, address, and identifying number of the U.S. person that included the amount in income;

2. The tax year in which the amount was included in income; and

3. The law under which the amount was previously included in income.

Line 9

Line 9a.— Enter the total tax (from Form 1120, Schedule J, line 10, or Form 1040, line 51) on your total taxable income (including your share of undistributed earnings of the QEF) for the tax year.

The term “undistributed earnings” means the excess, if any, of the amount included in gross income under section 1293(a) over the sum of the amount of any distribution and the portion of the amount attributable to stock in the QEF that you transferred or otherwise disposed of before the end of the QEF's tax year.

Line 9b.— Calculate your total tax as if your total taxable income did not include your share of the undistributed earnings of the QEF (line 8e). Enter this amount on line 9b.

Line 9c.— Corporations, enter this tax on Form 1120, Schedule J, in brackets to the left of the line entry space for line 10. Subtract that amount from the total of lines 6 through 9 and enter the difference on line 10.

Individuals, enter this tax on Form 1040 in brackets to the left of the line entry space for line 51. Subtract that amount from the total of lines 45 through 50, and enter the difference on line 51.

Part III—Distributions and Disposition of Stock in a Section 1291 Fund

Note: *A distribution to a corporation claiming the foreign tax credit for deemed paid foreign taxes includes foreign taxes deemed paid. See* **Form 1118,** *Foreign Tax Credits—Corporations (Rev. July 1994), Schedule C, Part I, column 9 and Part II, column 10 for the gross-up amount.*

Line 10

Line 10c.— Divide the amount on line 10b by 3. If the number of tax years in your holding period preceding the current tax year is less than 3, divide the amount on line 10b by that number.

Line 10d.— Report the dividend as follows:

Corporations, include this amount on Form 1120, Schedule C. line 13.

Individuals, include this amount as part of the total on Form 1040, line 9.

Line 10e.— If there was more than one distribution during the year, the excess distribution is apportioned among all actual distributions. Each apportioned amount is treated as a separate excess distribution.

Line 10f.— Gain recognized on the disposition of stock of a section 1291 fund is treated as an excess distribution. Losses are not recognized. Stock of a section 1291 fund is considered disposed of if it is sold, transferred, or pledged.

Line 11

Lines 11a and 11b.— Determine the taxation of the excess distribution on a separate sheet and attach it to Form 8621.

1. Divide the amount on line 10e or 10f, whichever applies, by the number of days in your holding period. The holding period of the stock is treated as ending on the date of distribution or disposition. If the Line 3 election is made, special rules apply to the holding period. See the instructions for line 3.

2. Determine the amount allocated to each tax year in your holding period by adding the amounts allocated to the days in each such tax year.

3. Add the amounts allocated to the pre-PFIC and current tax years. Enter the sum on line 11b.

This amount is treated as ordinary income on your tax return. Individuals, enter this amount on Form 1040, line 21. Corporations, enter this amount on Form 1120, page 1, line 10.

Line 11c.— An increase in tax is determined for each PFIC year in your holding period (other than the current tax year) by multiplying the part of the excess distribution allocated to each year (as determined on line 11a) by the highest rate of tax in effect for that tax year that would have been applicable to you.

Line 11d.— To figure the foreign tax credit, the shareholder of a section 1291 fund figures the total creditable foreign taxes attributable to the distribution. This amount includes the direct foreign taxes paid by the shareholder on the distribution (for example, withholding taxes) and for 10% or greater corporate shareholders, any taxes deemed paid under section 902. Both the direct and indirect foreign taxes must be creditable under general foreign tax credit principles and the shareholder must choose to claim the foreign tax credit for the current tax year.

The excess distribution taxes (the creditable foreign taxes attributable to an excess distribution) are determined by apportioning the total creditable foreign taxes between the part of the distribution that is an excess distribution and the part that is not.

The excess distribution taxes are allocated in the same manner as the excess distribution is allocated. See **Excess distributions** on page 2. Those taxes allocated to pre-PFIC and the current tax years are taken into account for the current tax year under the general rules of the foreign tax credit.

The excess distribution taxes allocated to a PFIC year only reduce the increase in tax figured for that tax year (but not below zero). No carryover of any unused excess distribution taxes is allowed.

When you dispose of stock, the above foreign tax credit rules apply only to the part of the gain that, without regard to section 1291, would be treated under section 1248 as a dividend.

Line 11e.— This amount is the aggregate increase in tax and is included on your tax return as additional taxes.

Individuals, enter this amount on Form 1040 to the left of the line 38 entry space. Write "Sec. 1291" next to the amount and include the amount as part of the total for line 38.

Corporations, enter this amount on Form 1120, Schedule J, to the left of the entry space for line 3. Write "Sec. 1291" next to the amount and include it as part of the total for line 3. Other entities should use the comparable line on their income tax returns.

Line 11f.— Interest is charged on each net increase in tax for the period beginning on the due date (without regard to extensions) of your income tax return for the tax year to which an increase in tax is attributable and ending with the due date (without regard to extensions) of your income tax return for the tax year of the excess distribution.

Individuals, enter the interest at the bottom right margin of Form 1040, page 1 and label it as "Sec. 1291 interest." Include this amount in your check or money order payable to the Internal Revenue Service. If you would otherwise receive a refund, reduce the refund by the interest due.

Corporations, enter this interest at the bottom right margin of Form 1120, page 1, and label it as "Sec. 1291 interest." Include this amount in your check or money order payable to the Internal Revenue Service. If you would otherwise receive a refund, reduce the refund by the interest due.

Part IV

Status of Prior Year Section 1294 Elections and Termination of Section 1294 Elections

Temporary Regulations section 1.1294-1T(h) requires each person who has made a section 1294 election to **(a)** annually report the status of that election and **(b)** report the termination of any section 1294 election that occurred during the tax year.

Line 1.— Enter the last day of each tax year for which you made a section 1294 election that is outstanding. Do not include an election made in the current tax year.

Line 2.— Enter the undistributed earnings of the QEF on which the payment of tax was extended by the section 1294 election entered on line 1. If the election was partially terminated in a prior year, enter the remaining undistributed earnings.

Line 3.— Enter the tax for which payment was extended by the section 1294 election entered on line 1. If the election was partially terminated in a previous tax year, enter the balance of the deferred tax.

Line 4.— Enter the accrued interest (determined under section 6621) on the deferred tax. This is the interest accrued from the due date (not including extensions) of the return for the year for which the section 1294 election was made until the date the current year's return is filed.

Line 5.— Enter the event(s) that occurred during the tax year that terminated one or more of the section 1294 elections reported on line 1. A section 1294 election may be terminated voluntarily. However, an election will terminate when any of the following events occur:

- An actual or deemed distribution of earnings to which the election is attributable (a loan, pledge, or guarantee by the QEF to or for the benefit of the taxpayer may cause a deemed distribution of the earnings);
- A disposition of stock in the fund, including a pledge by the taxpayer of stock as security for a loan; or
- A change of status of the QEF (i.e., a foreign corporation that is no longer a QEF or PFIC).

Line 6.— Enter the earnings distributed or deemed distributed as a result of the events described on line 5. Earnings are treated as distributed out of the most recently accumulated earnings. Accordingly, an event will first terminate the most recently made election. An election may be terminated in whole or in part depending on the event causing the termination. A distribution of earnings will terminate an election only to the extent the election is attributable to the earnings distributed. A loan, pledge, or guarantee by the QEF will terminate an election to the extent of the lower of the undistributed earnings or the amount loaned, secured, or guaranteed. A disposition of stock will terminate all elections with respect to the undistributed earnings attributable to that stock. A change in status of the QEF will terminate all elections.

Line 7.— Enter the deferred tax due from the termination of the section 1294 election. The deferred tax entered on line 3 is due if the election was completely terminated. If the election was only partially terminated, a proportionate amount of the deferred tax is due. That amount is determined by multiplying the amount entered on line 3 by a fraction, in which the numerator is the amount entered on line 6 and the denominator is the amount entered on line 2. The deferred tax is due by the due date of the shareholder's income tax return (without regard to extensions) for the year of termination.

When the election is terminated, corporations include the deferred tax as part of the total for Form 1120, Schedule J, line 10. Also enter the deferred tax to the left of line 10 and label it as "Sec. 1294 deferred tax."

Individuals must enter the deferred tax as part of the total for Form 1040, line 51. Also enter the deferred tax to the left of line 51, and label it as "Sec. 1294 deferred tax."

Line 8.— Enter the interest accrued on the deferred tax. Interest accrues beginning on the due date (without regard to extensions) of your tax return for the tax year in which the section 1294 election is made, and ending with the due date (without regard to extensions) of your tax return for the tax year of the termination. Interest is computed using the rates and methods under section 6621.

Corporations, enter the amount of section 1294 interest at the bottom right margin of Form 1120, page 1 and label it as "Sec. 1294 interest." Corporations, also include this amount in your check or money order payable to the Internal Revenue Service. If you would otherwise receive a refund, reduce the refund by the interest due.

Individuals must enter the interest from line 8 at the bottom right margin of Form 1040, page 1, and label it as "Sec. 1294 interest." Also include this amount in your check or money order payable to the Internal Revenue Service. If you would otherwise receive a refund, reduce the amount of the refund by the amount of interest due.

Lines 9 and 10.— Complete lines 9 and 10 only if you have partially terminated your section 1294 election. Enter on line 9 the part of the deferred tax outstanding after the partial termination of the section 1294 election. This amount should equal line 3 minus line 7.

Enter on line 10 the accrued interest remaining after the partial termination of the section 1294 election. This amount should equal line 4 minus line 8.