Notice to U.S. Shareholders of NB Private Equity Partners Limited

As mentioned in previous announcements, an investment in NB Private Equity Partners Limited ("NBPE") results in a U.S. investor owning interests in passive foreign investment companies ("PFICs") for purposes of U.S. tax law. As a result, U.S. shareholders have special tax considerations that they should address in connection with their U.S. federal income tax returns. Failure to take action could result in onerous tax consequences to a U.S. shareholder. **The following is intended only as a general summary of the possible implications of the PFIC rules and does not constitute tax advice. You must consult your own U.S. tax advisor to determine the specific application of these rules to you.**

Generally, an investment in a PFIC may compel a U.S. taxpayer to make either a Qualified Electing Fund ("QEF") or Mark-to-Market ("MTM") election (collectively "tax elections") on a Form 8621 filed with their U.S. tax return in order to recognize certain income from the PFIC on an annual basis. If such election is made, the U.S. taxpayer must continue to file a Form 8621 in subsequent years with respect to their investment in a PFIC in order to report their respective income inclusion and preserve the QEF or MTM election for that year. Failure to make these elections or to file the Form 8621 could result in onerous tax consequences when the PFIC makes distributions or the shares in the PFIC are sold, directly or indirectly.

Typically, an investment in a structure similar to NBPE would require U.S. investors to make a separate tax election for each direct or indirect PFIC instrument held by NBPE. Given NBPE's current and expected investments, this could potentially result in the need for a U.S investor to make as many as 80 to 90 elections annually. NBPE has obtained a private letter ruling (the "PLR") from the Internal Revenue Service ("IRS") in order to simplify the U.S. tax reporting obligations associated with an investment in NBPE. (A full copy of the PLR is available through the Tax Information section of the Investor Relations page of NBPE's Website - www.nbprivateequitypartners.com). In turn, the PLR allows investors to make tax elections solely with respect to two entities in the NBPE structure (the listed company, NBPE, and a wholly owned subsidiary, Neuberger Berman PEP Investments Limited ("NBPEPI")). Another entity within the NBPE structure will administer the tax elections and related reporting requirements for all of the PFICs indirectly held by these two entities.

PLEASE NOTE THAT YOU WILL NOT RECEIVE A K-1 RELATED TO YOUR INVESTMENT IN NBPE.

Action Required for Your 2020 U.S. Tax Return

<u>For U.S. investors that purchased shares at any time during 2020 and held those shares as of December 31, 2020:</u>

We anticipate the vast majority of U.S. investors will elect to make a QEF election with respect to each of NBPE and NBPEPI. Please see below for a description of the impact of a MTM election, which is available for NBPE only. Note that even if you do not have any income to report for the 2020 tax year, **you still must do the following if you choose to make a valid QEF election for 2020:**

1) File a separate complete and accurate Form 8621 for each of NBPE and NBPEPI with your 2020 U.S. federal income tax return (See Attachment A). [In order to make the QEF

election on Form 8621, you will need to complete the information above Part II, check box A in Part II, and complete Part III.]

2) Retain a copy of the annual information statements ("AISs") for each of NBPE and NBPEPI in your tax files.

Failure to make a QEF or MTM election in the year in which you purchase the shares could lead to adverse tax consequences with respect to all directly and indirectly owned PFICs in the NBPE investment structure and could significantly increase the administrative burden with respect to your investment in the underlying PFICs.

For U.S. investors that purchased shares during 2020 and sold those shares prior to December 31, 2020:

Gain or loss on the sale of the shares should generally be reported on your 2020 U.S. tax return. In addition, reporting on Form 8621 may be required. **You may still need to make either a QEF or MTM election to ensure you are not subject to the onerous tax consequences related to PFICs. If you did not own shares prior to your purchase in 2020 and sold all the shares you purchased in 2020, you may not be eligible to make a MTM election with respect to NBPE, and may only be permitted to make QEF elections with respect to both NBPE and NBPEPI. If you did not make a valid QEF election, gain or loss should be reported as ordinary gain or loss.**

For U.S. investors that purchased shares prior to 2020 and sold those shares prior to December 31, 2020:

The U.S. tax treatment of the sale of the NBPE shares can vary depending on the election (or lack thereof) made in prior years.

1) If a QEF election was made in prior years, the gain or loss on the sale of the NBPE shares should be calculated after adjusting the U.S. tax basis in the shares for prior year income inclusions and distributions. The resulting gain or loss on the sale of shares should be reported on your 2020 U.S. tax return in the same manner as other stock purchases and sales. In addition, reporting on Form 8621 may be required.
2) If a MTM election was made in prior years, the gain or loss on the sale of the NBPE shares should be calculated after adjusting the U.S. tax basis in the shares for prior year income inclusions. The resulting gain or loss on the sale of shares should be treated as ordinary income to the extent of unreversed income inclusions and reported on your 2020 U.S. tax return. In addition, reporting on Form 8621 may be required.
3) **If no election was made, you may be subject to additional U.S. tax on the disposition of the shares due to the onerous excess distribution rules associated with owning a PFIC.**

Even if you sold your shares during the year, you may still consider making a QEF election to manage the onerous tax consequences related to PFICs.

For U.S. investors who purchased shares prior to 2020 and continue to hold such shares as of December 31, 2020:

Whether a QEF or MTM election has been made in a previous year, Form 8621 should be filed for 2020. Note that even if you do not have any income to report for the 2020 tax year, **you still must file Form 8621 to continue to have a valid QEF or MTM election**.

If you fail to file Form 8621, the QEF or MTM election may not be valid in subsequent years and you may be subject to the onerous tax consequences related to PFICs.

For U.S. investors that purchased shares after December 31, 2020:

No action is required from you at this time. See "What to Expect for Future Years" below.

Summary of the QEF and MTM Elections

We anticipate most investors will make a QEF election for each of NBPE and NBPEPI. As a result of the relief granted in the PLR, investors in NBPE should only have to make these two elections in order to satisfy all of the PFIC reporting required by the NBPE structure.

QEF election

By making a QEF election, an investor should recognize income from the PFICs in the taxable year of NBPE in which the income is earned. As a result of the PLR, 99.5% of all income generated within the NBPE structure should be recognized by NBPE and the remaining .5% should be recognized by NBPEPI. Income generated within the NBPE structure should retain its ordinary income or capital gains characteristics and should be reported by NBPE to the investor each year on an AIS. A QEF election could result in "phantom income," or income without a corresponding cash distribution, but should otherwise relieve investors from the onerous penalties and interest which would be incurred at the time the PFIC makes distributions or the shares of the PFIC are sold absent a valid election. (See Attachment B for examples of the potential impact of QEF elections).

The PLR also affords U.S. shareholders making a QEF election a one-year deferral of tax on any income inclusions that would otherwise be required. The IRS permitted NBPE to adopt a November 30th taxable year end. As a result, the tax year of NBPE's underlying investments ends one month after NBPE's tax year. Therefore, income generated by NBPE's underlying investments during, for example, the 2020 calendar year are not included in NBPE's income until the subsequent year, i.e., 2021. **However, a U.S. shareholder reporting on a calendar year basis may still need to make a QEF election for NBPE and NBPEPI with its 2020 return. There could be an income inclusion in 2020 with respect to income derived by the underlying PFIC investments during 2019. QEF inclusions are reported on the taxpayer's return for the taxable year of the QEF that ends with or within the taxable year of the taxpayer (See Attachment B for examples of the potential impact of QEF elections).**

MTM Election

Investors have the option of making a MTM election with respect to NBPE, but no such election is available for NBPEPI. A MTM election can be made by any U.S. shareholder that owns marketable PFIC stock. PFIC stock is considered marketable for this purpose if it is regularly traded on a qualified exchange or other market.

If a U.S. shareholder elects to make a MTM election, the shareholder must annually recognize income or loss equal to the difference between the stock's fair market value at the shareholder's

year-end and the shareholder's adjusted tax basis in such stock. Thus, for 2020, a U.S. investor with a calendar tax year end should include in its tax return ordinary income in an amount equal to any increase in the value of its NBPE shares from the date of purchase to December 31, 2020, or for subsequent years, the increase in value from January 1 of the calendar year to December 31 of such year. To the extent the shares decrease in value, in any calendar year, the losses can only be utilized by the investor to the extent the investor has reported gains in prior years. (See Attachment C for examples of the potential impact of MTM elections). **If a MTM election is made, annual income inclusions and gain on the sale of NBPE shares should generally be treated as ordinary income.**

The taxation of PFICs is a complex area of U.S. tax law. The availability of the QEF and MTM elections may vary by shareholder and PFIC, and the effects of such elections may result in differing income inclusions for electing shareholders. Please consult your tax advisor to determine the best course of action for your specific facts. If you have any questions regarding the potential impact of the PLR in this context, please contact Investor Relations at IR_NBPE@nb.com.

What to Expect for Future Years

For U.S. investors that purchase shares, hold such shares at the end of a calendar year and make a QEF election:

1) You will receive an AIS for each of NBPE and NBPEPI to notify you of any applicable income inclusion for your tax return for the prior year.
2) You will need to file a separate complete and accurate Form 8621 for each of NBPE and NBPEPI with your U.S. federal income tax return. The AIS should include all of the information you will need to complete the Form 8621.
3) If you make a QEF election, retain a copy of the AIS for each of NBPE and NBPEPI in your tax files.

For U.S. investors that sell shares:

1) You will receive an AIS for each of NBPE and NBPEPI which should contain a calculation to help you determine the amount of income inclusion from each of NBPE and NBPEPI that you will need to report on your tax return. The calculation will be a pro rata allocation of the income for that portion of the calendar year in which you held the shares.
2) You will need to file a separate complete and accurate Form 8621 for each of NBPE and NBPEPI with your U.S. federal income tax return. The AIS should include all of the information you will need to complete the Form 8621.
3) If you make a QEF election, retain a copy of the AIS for each of NBPE and NBPEPI in your tax files.
4) You will need to report the gain or loss on the sale of the shares in the same manner as other stock purchases and sales.

For U.S. investors that receive cash distributions:

1) If you have made a valid QEF election, you should not be subject to further tax upon receipt of distributions out of earnings that were previously included in income.
2) If you have made a valid MTM election, please refer to your Form 1099-DIV for the portion of the distribution that should be treated as a dividend and/or return of basis. Non-dividend distributions in excess of your basis may be treated as a sale or exchange.

3) If you have not made a valid QEF or MTM election, you may be subject to the onerous "excess distribution" regime associated with owning a PFIC.
4) You may receive IRS Form 1099-DIV from the trustee or paying agent reporting the cash payment and/or IRS Form 8937 [Report of Organizational Actions Affecting Basis of Securities] reporting the impact of the distribution on your basis in your PFIC shares.

Attachments:
A- Form 8621 and Instructions
B- QEF Illustration
C- MTM Illustration

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Attachment A

Form 8621 & Instructions

Form **8621**
(Rev. December 2018)
Department of the Treasury
Internal Revenue Service

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

► Go to *www.irs.gov/Form8621* for instructions and the latest information.

OMB No. 1545-1002

Attachment Sequence No. **69**

Name of shareholder	**Identifying number** (see instructions)
Number, street, and room or suite no. If a P.O. box, see instructions.	Shareholder tax year: calendar year 20 or other tax year beginning , 20 and ending , 20 .
City or town, state, and ZIP code or country	

Check type of shareholder filing the return: ☐ Individual ☐ Corporation ☐ Partnership ☐ S Corporation ☐ Nongrantor Trust ☐ Estate

Check if any Excepted Specified Foreign Financial Assets are reported on this form. See instructions . . . . . ☐

Qualifying Insurance Corporation Election—I, a shareholder of stock of a foreign corporation, elect to treat such stock as the stock of a Qualifying Insurance Corporation under the alternative facts and circumstances test within the meaning of section 1297(f)(2). See instructions . . . . . ☐

Name of foreign corporation, passive foreign investment company (PFIC), or qualified electing fund (QEF)	**Employer identification number** (if any)
Address (Enter number, street, city or town, and country.)	**Reference ID number** (see instructions)
	Tax year of foreign corporation, PFIC, or QEF: calendar year 20 or other tax year beginning , 20 and ending , 20 .

Part I Summary of Annual Information (see instructions)

Provide the following information with respect to all shares of the PFIC held by the shareholder:

1 Description of each class of shares held by the shareholder: _____
☐ Check if shares jointly owned with spouse.

2 Date shares acquired during the tax year, if applicable: _____

3 Number of shares held at the end of the tax year: _____

4 Value of shares held at the end of the tax year (check the appropriate box, if applicable):
(a) ☐ $0–50,000 **(b)** ☐ $50,001–100,000 **(c)** ☐ $100,001–150,000 **(d)** ☐ $150,001–200,000
(e) If more than $200,000, list value: _____

5 Type of PFIC and amount of any excess distribution or gain treated as an excess distribution under section 1291, inclusion under section 1293, and inclusion or deduction under section 1296 (check all boxes that apply):
(a) ☐ Section 1291 $ _____
(b) ☐ Section 1293 (Qualified Electing Fund) $ _____
(c) ☐ Section 1296 (Mark to Market) $

Part II Elections (see instructions)

A ☐ **Election To Treat the PFIC as a QEF.** I, a shareholder of a PFIC, elect to treat the PFIC as a QEF. *Complete lines 6a through 7c of Part III.*

B ☐ **Election To Extend Time For Payment of Tax.** I, a shareholder of a QEF, elect to extend the time for payment of tax on the undistributed earnings and profits of the QEF until this election is terminated. *Complete lines 8a through 9c of Part III to calculate the tax that may be deferred.*

Note: If any portion of line 6a or line 7a of Part III is includible under section 951, you may **not** make this election. Also, see sections 1294(c) and 1294(f) and the related regulations for events that terminate this election.

C ☐ **Election To Mark-to-Market PFIC Stock.** I, a shareholder of a PFIC, elect to mark-to-market the PFIC stock that is marketable within the meaning of section 1296(e). *Complete Part IV.*

D ☐ **Deemed Sale Election.** I, a shareholder on the first day of a PFIC's first tax year as a QEF, elect to recognize gain on the deemed sale of my interest in the PFIC. *Enter gain or loss on line 15f of Part V.*

E ☐ **Deemed Dividend Election.** I, a shareholder on the first day of a PFIC's first tax year as a QEF that is a controlled foreign corporation (CFC), elect to treat an amount equal to my share of the post-1986 earnings and profits of the CFC as an excess distribution. *Enter this amount on line 15e of Part V. If the excess distribution is greater than zero, also complete line 16 of Part V.*

F ☐ **Election To Recognize Gain on Deemed Sale of PFIC.** I, a shareholder of a former PFIC or a PFIC to which section 1297(d) applies, elect to treat as an excess distribution the gain recognized on the deemed sale of my interest in the PFIC on the last day of its last tax year as a PFIC under section 1297(a). *Enter gain on line 15f of Part V.*

G ☐ **Deemed Dividend Election With Respect to a Section 1297(e) PFIC.** I, a shareholder of a section 1297(e) PFIC, within the meaning of Regulations section 1.1297-3(a), elect to make a deemed dividend election with respect to the Section 1297(e) PFIC. My holding period in the stock of the Section 1297(e) PFIC includes the CFC qualification date, as defined in Regulations section 1.1297-3(d). *Enter the excess distribution on line 15e, Part V. If the excess distribution is greater than zero, also complete line 16, Part V.*

H ☐ **Deemed Dividend Election With Respect to a Former PFIC.** I, a shareholder of a former PFIC, within the meaning of Regulations section 1.1298-3(a), elect to make a deemed dividend election with respect to the former PFIC. My holding period in the stock of the former PFIC includes the termination date, as defined in Regulations section 1.1298-3(d). *Enter the excess distribution on line 15e, Part V. If the excess distribution is greater than zero, also complete line 16, Part V.*

Part III Income From a Qualified Electing Fund (QEF). All QEF shareholders complete lines 6a through 7c. If you are making Election B, also complete lines 8a through 9c. See instructions.

6a	Enter your pro rata share of the ordinary earnings of the QEF	6a			
b	Enter the portion of line 6a that is included in income under section 951 or that may be excluded under section 1293(g)	6b			
c	Subtract line 6b from line 6a. Enter this amount on your tax return as ordinary income			6c	
7a	Enter your pro rata share of the total net capital gain of the QEF	7a			
b	Enter the portion of line 7a that is included in income under section 951 or that may be excluded under section 1293(g)	7b			
c	Subtract line 7b from line 7a. This amount is a net long-term capital gain. Enter this amount in Part II of the Schedule D used for your income tax return. See instructions			7c	

Complete lines 8 and 9 only if you are making a section 1294 election (Election B) for the current tax year.

8a	Add lines 6c and 7c			8a	
b	Enter the total amount of cash and the fair market value of other property distributed or deemed distributed to you during the tax year of the QEF. See instructions	8b			
c	Enter the portion of line 8a not already included in line 8b that is attributable to shares in the QEF that you disposed of, pledged, or otherwise transferred during the tax year	8c			
d	Add lines 8b and 8c			8d	
e	Subtract line 8d from line 8a, and enter the difference (if zero or less, enter amount in brackets)			8e	
	Important: *If line 8e is greater than zero, and no portion of line 6a or 7a is includible in income under section 951, you may make Election B with respect to the amount on line 8e.*				
9a	Enter the total tax for the tax year. See instructions	9a			
b	Enter the total tax for the tax year determined without regard to the amount entered on line 8e	9b			
c	Subtract line 9b from line 9a. **This is the deferred tax, the time for payment of which is extended by making Election B. See instructions**			9c	

Part IV Gain or (Loss) From Mark-to-Market Election (see instructions)

10a	Enter the fair market value of your PFIC stock at the end of the tax year	10a	
b	Enter your adjusted basis in the stock at the end of the tax year	10b	
c	Subtract line 10b from line 10a. If a gain, do not complete lines 11 and 12. Include this amount as ordinary income on your tax return. If a loss, go to line 11	10c	
11	Enter any unreversed inclusions (as defined in section 1296(d))	11	
12	Enter the loss from line 10c, but only to the extent of unreversed inclusions on line 11. Include this amount as an ordinary loss on your tax return	12	
13	**If you sold or otherwise disposed of any section 1296 stock (see instructions) during the tax year:**		
a	Enter the fair market value of the stock on the date of sale or disposition	13a	
b	Enter the adjusted basis of the stock on the date of sale or disposition	13b	
c	Subtract line 13b from line 13a. If a gain, do not complete line 14. Include this amount as ordinary income on your tax return. If a loss, go to line 14	13c	
14a	Enter any unreversed inclusions (as defined in section 1296(d))	14a	
b	Enter the loss from line 13c, but only to the extent of unreversed inclusions on line 14a. Include this amount as an ordinary loss on your tax return. If the loss on line 13c exceeds unreversed inclusions on line 14a, complete line 14c	14b	
c	Enter the amount by which the loss on line 13c exceeds unreversed inclusions on line 14a. Include this amount on your tax return according to the rules generally applicable for losses provided elsewhere in the Code and regulations	14c	

Note: See instructions in case of multiple sales or dispositions.

Part V **Distributions From and Dispositions of Stock of a Section 1291 Fund** (see instructions)
*Complete a **separate** Part V for each excess distribution and disposition. See instructions.*

15a	Enter your total distributions from the section 1291 fund during the current tax year with respect to the applicable stock. If the holding period of the stock began in the current tax year, see instructions	**15a**	
b	Enter the total distributions (reduced by the portions of such distributions that were excess distributions but not included in income under section 1291(a)(1)(B)) made by the fund with respect to the applicable stock for each of the 3 years preceding the current tax year (or if shorter, the portion of the shareholder's holding period before the current tax year)	**15b**	
c	Divide line 15b by 3.0. (See instructions if the number of preceding tax years is less than 3.)	**15c**	
d	Multiply line 15c by 125% (1.25)	**15d**	
e	Subtract line 15d from line 15a. This amount, if more than zero, is the excess distribution with respect to the applicable stock. If there is an excess distribution, complete line 16. If zero or less and you did not dispose of stock during the tax year, **do not** complete the rest of Part V. See instructions if you received more than one distribution during the current tax year. Also, see instructions for rules for reporting a nonexcess distribution on your income tax return	**15e**	
f	Enter gain or loss from the disposition of stock of a section 1291 fund or former section 1291 fund. If a gain, complete line 16. If a loss, show it in brackets and **do not** complete line 16	**15f**	
16a	If there is a positive amount on line 15e or 15f (or both), attach a statement for each excess distribution and disposition. Show your holding period for each share of stock or block of shares held. Allocate the excess distribution or gain to each day in your holding period. Add all amounts that are allocated to days in each tax year.		
b	Enter the total of the amounts determined in line 16a that are allocable to the current tax year and tax years before the foreign corporation became a PFIC (pre-PFIC years). Enter these amounts on your income tax return as other income	**16b**	
c	Enter the aggregate increases in tax (before credits) for each tax year in your holding period (other than the current tax year and pre-PFIC years). See instructions	**16c**	
d	Foreign tax credit (see instructions)	**16d**	
e	Subtract line 16d from line 16c. Enter this amount on your income tax return as "additional tax." See instructions	**16e**	
f	Determine interest on each net increase in tax determined on line 16e using the rates and methods of section 6621. Enter the aggregate amount of interest here. See instructions	**16f**	

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

Complete a separate column for each outstanding election.

		(i)	(ii)	(iii)	(iv)	(v)	(vi)
	Complete lines 17 through 20 to report the status of outstanding prior year section 1294 elections.						
17	Tax year of outstanding election						
18	Undistributed earnings to which the election relates .						
19	Deferred tax						
20	Interest accrued on deferred tax (line 19) as of the filing date						
	Complete lines 21 through 24 only if a section 1294 election is terminated in the current year.						
21	Event terminating election .						
22	Earnings distributed or deemed distributed during the tax year						
23	Deferred tax due with this return						
24	Accrued interest due with this return.						
	Complete lines 25 and 26 only if there is a partial termination of a section 1294 election in the current tax year.						
25	Deferred tax outstanding after partial termination of election. Subtract line 23 from line 19 .						
26	Interest accrued after partial termination of election. Subtract line 24 from line 20 .						

Instructions for Form 8621

(Rev. December 2020)

Department of the Treasury
Internal Revenue Service

(Use with the December 2018 revision of Form 8621.)

Information 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.

Future Developments

For the latest information about developments relating to Form 8621, and its instructions, such as legislation enacted after they were published, go to *IRS.gov/Form8621*.

What's New

With respect to the recently added checkbox for Qualifying Insurance Corporations (see the *Reminders* section below for details), the attachment requirement has been clarified in the instructions for that election. See item number 3 under *How to make the election* under the instructions for *Election To Be Treated as a Qualifying Insurance Corporation*.

With respect to certain amounts on Form 8621 that are reported on income tax returns, some of the references to Form 1040 (on pages 10 through 13 of these instructions) have been updated to reflect further redesign of Form 1040 for tax year 2020.

The line 16f instructions were modified to update the Revenue Ruling for the rates for interest determined under section 6621.

Reminders

Election to be treated as a Qualifying Insurance Corporation. A checkbox was added on page 1 of Form 8621 for shareholders of stock of a foreign corporation that elect to treat such stock as the stock of a qualifying insurance corporation under section 1297(f)(2), which was added by section 14501 of the Tax Cuts and Jobs Act (TCJA). For more information, see *Election To Be Treated as a Qualifying Insurance Corporation*, later.

General Instructions

Who Must File

Qualifying Insurance Corporation

A U.S. person that owns stock of a foreign corporation and elects to treat such stock as the stock of a qualifying insurance corporation under the alternative facts and circumstances test within the meaning of section 1297(f)(2) must file a limited-information Form 8621. For details, see *Election To Be Treated as a Qualifying Insurance Corporation*, later.

Passive Foreign Investment Corporation (PFIC)

Generally, a U.S. person that is a direct or indirect shareholder of a PFIC must file Form 8621 for each tax year under the following five circumstances if the U.S. person:

1. Receives certain direct or indirect distributions from a PFIC,
2. Recognizes gain on a direct or indirect disposition of PFIC stock,
3. Is reporting information with respect to a Qualified Electing Fund (QEF) or section 1296 mark-to-market election,
4. Is making an election reportable in Part II of the form, or
5. Is required to file an annual report pursuant to section 1298(f). See the *Part I* instructions, later, for more information regarding the person that must file pursuant to section 1298(f).

A **separate** Form 8621 must be filed for each PFIC in which stock is held directly or indirectly. In the case of a chain of ownership, under the five circumstances described above, unless otherwise provided, if the shareholder owns one PFIC and through that PFIC owns one or more other PFICs, the shareholder must file a Form 8621 for each PFIC in the chain.

A **single** Form 8621 may be filed with respect to a PFIC to report the information required by section 1298(f) (that is, Part I), as well as to report information in Parts III through VI of the form and to make elections in Part II of the form. For example, a U.S. person that has made a section 1296 mark-to-market election with respect to a PFIC will file a single Form 8621 and complete Part I and Part IV.

Indirect shareholder. Generally, a U.S. person is an indirect shareholder of a PFIC if it is:

- A 50%-or-more shareholder of a foreign corporation that is not a PFIC and that directly or indirectly owns stock of a PFIC,
- A shareholder of a PFIC where the PFIC itself is a shareholder of another PFIC,
- A 50%-or-more shareholder of a domestic corporation where the domestic corporation owns a section 1291 fund, or
- A direct or indirect owner of a pass-through entity where the pass-through entity itself is a direct or indirect shareholder of a PFIC.

For more information on determining whether a U.S. person is an indirect shareholder, see Regulations section 1.1291-1(b)(8).

For purposes of these rules, a pass-through entity is a partnership, S corporation, trust, or estate.

However, a U.S. person that owns stock of a PFIC through a tax-exempt organization or account described in the list below is not treated as a shareholder of the PFIC.

- An organization or an account that is exempt from tax under section 501(a) because it is described in section 501(c), 501(d), or 401(a).
- A state college or university described in section 511(a)(2)(B).
- A plan described in section 403(b) or 457(b).
- An individual retirement plan or annuity as defined in section 7701(a)(37).
- A qualified tuition program described in section 529 or 530.
- A qualified ABLE program described in section 529A.

Interest holder of pass-through entities. In general, the following interest holders must file Form 8621, unless an exception applies.

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 shareholder of PFIC stock held in trust.

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

Note. 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 such form or the U.S. person is required to recognize any income under section 1291.

When and Where To File

Attach Form 8621 to the shareholder's tax return (or, if applicable, partnership or exempt organization return) and file both by the due date, including extensions, of the return at the Internal Revenue Service Center where the tax return is required to be filed.

If you are not required to file an income tax return or other return for the tax year, file Form 8621 directly with the Internal Revenue Service Center, Ogden, UT 84201-0201.

Definitions and Special Rules

Passive Foreign Investment Company (PFIC)

A foreign corporation is a PFIC if it meets either the income or asset test described next.

1. **Income test.** 75% or more of the corporation's gross income for its tax year is passive income (as defined in section 1297(b)).

2. **Asset test.** At least 50% of the average percentage of assets (determined under section 1297(e)) held by the foreign corporation during the tax year are assets that produce passive income or that are held for the production of passive income.

Basis for measuring assets. When determining PFIC status using the asset test, a foreign corporation may use adjusted basis if:

1. The corporation is not publicly traded for the tax year and

2. The corporation (a) is a controlled foreign corporation within the meaning of section 957 (CFC), or (b) makes an election to use adjusted basis.

Publicly traded corporations must use fair market value when determining PFIC status using the asset test.

Look-thru rule. When determining if a foreign corporation is a PFIC, the foreign corporation is treated as if it directly held its proportionate share of the assets and directly received its proportionate share of the income of any corporation in which it owns at least 25% of the stock (by value).

CFC overlap rule. A 10% or more U.S. shareholder (defined in section 951(b)) that includes in income its pro rata share of subpart F income for stock of a CFC that is also a PFIC generally will not be subject to the PFIC provisions for the same stock during the qualified portion of the shareholder's holding period of the stock in the PFIC. This exception does not apply to option holders. For more information, see section 1297(d).

Note. The attribution rules of section 1298(a)(2)(B) will continue to apply even if the foreign corporation is not treated as a PFIC with respect to the shareholder under section 1297(d).

Qualified Electing Fund (QEF) Election

A PFIC is a QEF if a U.S. person who is a direct or indirect shareholder of the PFIC elects (under section 1295(b)) to treat the PFIC as a QEF and complies with the requirements described in section 1295(a)(2). See the instructions for *Election A*, later, for information on making this election.

Tax Consequences for Shareholders of a QEF

- A shareholder of a QEF must annually include in gross income as ordinary income its pro rata share of the ordinary earnings of the QEF and as long-term capital gain its pro rata share of the net capital gain of the QEF.
- The shareholder may elect to extend the time for payment of tax on its share of the undistributed earnings of the QEF (Election B) until the QEF election is terminated.
- If the QEF election is not made with respect to the first year of the shareholder's holding period in the PFIC, the shareholder may be able to make a deemed sale election (Election D) or deemed dividend election (Election E) (if eligible). If the shareholder properly makes a deemed sale election or deemed dividend election in connection with its QEF election, then the PFIC will become a pedigreed QEF (as defined in Regulations section 1.1291-9(j)(2)(ii)) with respect to the shareholder.

Note. A shareholder that receives a distribution from an unpedigreed QEF (defined in Regulations section 1.1291-9(j)(2)(iii)) is also subject to the rules applicable to a *shareholder of a section 1291 fund* (see below).

Basis adjustments. A shareholder's basis in the stock of a QEF, or in any property through which the shareholder is treated as owning stock of a QEF, is increased by the earnings included in gross income and decreased by a distribution from the QEF to the extent of previously taxed amounts.

Section 1291 Fund

A PFIC is a section 1291 fund if:

1. The shareholder did not elect to treat the PFIC as a QEF or make a mark-to-market election with respect to the PFIC, or

2. The PFIC is an unpedigreed QEF (as defined in Regulations section 1.1291-9(j)(2)(iii)).

Tax Consequences for Shareholders of a Section 1291 Fund

Shareholders of a section 1291 fund are subject to special rules when they receive an *excess distribution* (defined below) from, or recognize gain on the sale or disposition of the stock of, a section 1291 fund. A distribution may be partly or wholly an excess distribution. The entire amount of 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 from a section 1291 fund in the current tax year that is greater than 125% of the average distributions received in respect of such stock by the shareholder during the 3 preceding tax years (or, if shorter, the portion of the shareholder's holding period before the current tax year). 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 and is allocated to each day in the shareholder's holding period of the stock. See section 1291(b)(3) for adjustments that are made when determining if a distribution is an excess distribution.

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 separate tax and interest charge set forth in section 1291(c).

See the instructions for *Part V*, later.

Exempt organizations. If a shareholder of a PFIC is a tax-exempt organization, the rules of section 1291 will apply only if a dividend from the PFIC would be taxable to the shareholder under subchapter F.

Coordination of mark-to-market regimes with section 1291. Shareholders of a PFIC that is marked to market under section 1296 or any other Code provision may be subject to section 1291 in the first tax year in which the shareholder marks to market the PFIC stock. See Regulations sections 1.1291-1(c)(4) and 1.1296-1(i).

Mark-to-Market Election

A U.S. shareholder of a PFIC may elect to mark to market the PFIC stock under section 1296 if the stock is "marketable stock." See the instructions for *Election C*, later, for information on making this election.

Marketable stock. Marketable stock is:

- PFIC stock that is regularly traded (as defined in Regulations section 1.1296-2(b)) on:

1. A national securities exchange that is registered with the Securities and Exchange Commission (SEC),

2. The national market system established under section 11A of the Securities Exchange Act of 1934, or

3. A foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located and has the characteristics described in Regulations section 1.1296-2(c)(1)(ii).

- Stock in certain PFICs described in Regulations section 1.1296-2(d).

For additional information, including special rules for regulated investment companies (RICs) that own PFIC stock, see Regulations section 1.1296-1 and 1.1296-2.

Tax Consequences

After a PFIC shareholder elects to mark the stock to market under section 1296, the shareholder either:

1. Includes in income each year an amount equal to the excess, if any, of the fair market value of the PFIC stock as of the close of the tax year over the shareholder's adjusted basis in such stock; or

2. Is allowed a deduction equal to the lesser of:

a. The excess, if any, of the adjusted basis of the PFIC stock over its fair market value as of the close of the tax year; or

b. The excess, if any, of the amount of mark-to-market gain included in the gross income of the PFIC shareholder for prior tax years over the amount allowed such PFIC shareholder as a deduction for a loss with respect to such stock for prior tax years.

See the instructions for Part II, *Election C*, and *Part IV*, later, for more information, including special rules that may apply in the year that a mark-to-market election is made.

Basis adjustment. If the stock is held directly, the shareholder's adjusted basis in the PFIC stock is increased by the amount included in income and decreased by any deductions allowed. If the stock is owned indirectly through foreign entities, see Regulations section 1.1296-1(d)(2).

Additional Information Required

Reportable transaction disclosure statement. A 10% shareholder (by vote or value) of a QEF may also be required to file Form 8886 if the QEF is considered to have participated in a reportable transaction pursuant to Regulations section 1.6011-4(c)(3)(i)(G). See Form 8886, Reportable Transaction Disclosure Statement, and Regulations section 1.6011-4 for additional information.

Specific Instructions

Important: All line references to Form 1120 and Form 1040 are to the 2020 forms. Other entities should use the comparable line on their tax return.

Excepted Specified Foreign Financial Assets Reported

Check this box only if the Form 8621 filer also files Form 8938, Statement of Specified Foreign Financial Assets, for the tax year and includes this form in the total number of Forms 8621 reported on line 4 of Part IV, Excepted Specified Foreign Financial Assets, of Form 8938. For more information, see the Instructions for Form 8938, generally, and in particular, *Duplicative Reporting* and the specific instructions for Part IV, Excepted Specified Foreign Financial Assets.

Election To Be Treated as a Qualifying Insurance Corporation

Who may make the election. A U.S. person that is a shareholder of a corporation that fails to qualify as a qualifying insurance corporation (QIC) (as defined in section 1297(f)(1)) solely because its applicable insurance liabilities make up 25% or less of its total assets may elect to treat the stock as stock of a qualifying insurance corporation if:

1. The corporation's applicable insurance liabilities make up at least 10% of its total assets; and

2. Based on the applicable facts and circumstances, the corporation is predominantly engaged in an insurance business, and its failure to satisfy the 25% threshold is due solely to runoff-related or rating-related circumstances involving such insurance business.

When to make the election. Generally, the shareholder must make this election by the due date, including extensions, of the shareholder's tax return for the tax year for which the taxpayer is relying on the alternative facts and circumstances test to meet the definition of a qualifying insurance corporation.

How to make the election. Follow these steps to make the election.

1. Check the box on page 1 of Form 8621.

2. Provide the identifying information for the shareholder and the foreign corporation (Name, Address, Identifying Number (if any)) only. You do not have to complete any other part of the Form 8621 if you are only filing the form to make this election.

3. The U.S. person is required to attach either:

- A statement provided by the foreign corporation (and signed by a responsible officer of the foreign corporation or an authorized representative of the foreign corporation) that the foreign corporation satisfied the requirements of section 1297(f)(2) during the foreign corporation's tax year. Specifically, if the foreign corporation failed to qualify as a QIC under section 1297(f)(1) solely because the ratio of applicable insurance liabilities to total assets for the tax year is 25% or less, the statement must (1) indicate that the ratio was at least 10%, along with a calculation of the ratio (with the resultant ratio double underlined); (2) include a statement indicating whether the failure to satisfy the 25% test was the result of runoff-related or rating-related circumstances, along with a brief description of those circumstances; and (3) include information that establishes that the foreign corporation has met the "predominately engaged in an insurance business" requirement described in Proposed Regulations section 1.1297-4(d)(2).
- A publicly available statement (such as in a public filing, disclosure statement, or other notice provided to U.S. persons that are shareholders of the foreign corporation) that it satisfied the requirements of section 1297(f)(2) during the foreign corporation's tax year. This publicly available statement must include the same three items noted in the first bulleted item above.

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.

Identifying number. Individuals should enter a social security number or a taxpayer identification number issued by the IRS. All other entities should enter an employer identification number (EIN).

Reference ID number. A reference ID number is required in the applicable entry space above Part I of the form only in cases where no EIN was entered for the PFIC, QEF, or QIC. However, filers are permitted to enter both an EIN and a reference ID number. If applicable, enter the reference ID number (defined below) you have assigned to the PFIC, QEF, or QIC.

A "reference ID number" is a number established by or on behalf of the U.S. person identified at the top of page 1 of the form that is assigned to a PFIC, QEF, or QIC with respect to which Form 8621 reporting is required. These numbers are used to uniquely identify the PFIC, QEF, or QIC in order to keep track of the entity from tax year to tax year. The reference ID number must meet the *requirements* set forth below.

Note. Because reference ID numbers are established by or on the behalf of a U.S. person filing Form 8621, there is no need to apply to the IRS to request a reference ID number or for permission to use these numbers.

Note. In general, the reference ID number assigned to a PFIC, QEF, or QIC on Form 8621 has relevance only to Form 8621 and should not be used with respect to the PFIC, QEF, or QIC on other IRS forms.

Requirements. The reference ID number must be alphanumeric (defined below) and no special characters or spaces are permitted. The length of a given reference ID number is limited to 50 characters.

For these purposes, the term "alphanumeric" means the entry can be alphabetical, numeric, or any combination of the two.

The same reference ID number must be used consistently from tax year to tax year with respect to a given PFIC, QEF, or QIC. If for any reason a reference ID number falls out of use (for example, the PFIC, QEF, or QIC no longer exists due to disposition or liquidation), the reference ID number used for that PFIC, QEF, or QIC cannot be used again for another PFIC, QEF, or QIC for purposes of Form 8621 reporting.

There are some situations that warrant correlation of a new reference ID number with a previous reference ID number when assigning a new reference ID number to a PFIC, QEF, or QIC. For example:

- In the case of a merger or acquisition, a Form 8621 filer must use a reference ID number which correlates the previous reference ID number with the new reference ID number assigned to the PFIC, QEF, or QIC.
- In the case of an entity classification election that is made on behalf of a PFIC, QEF, or QIC on Form 8832, Regulations section 301.6109-1(b)(2)(v) requires the PFIC, QEF, or QIC to have an EIN for this election. For the first year that Form 8621 is filed after an entity classification election is made on behalf of the PFIC, QEF, or QIC on Form 8832, the new EIN must be entered in the applicable entry space above Part I of Form 8621 and the old reference ID number must be entered in the applicable entry space just below. In subsequent years, the Form 8621 filer may continue to enter both the EIN and the reference ID number, but must enter at least the EIN.

You must correlate the reference ID numbers as follows: New reference ID number [space] Old reference ID number. If there is more than one old reference ID number, you must enter a space between each such number. As indicated above, the *length* of a given reference ID number is limited to 50 characters and each number must be alphanumeric and no special characters are permitted.

Note. This correlation requirement applies only to the first year the new reference ID number is used.

Part I. Summary of Annual Information

Who Must Complete Part I

In general, all shareholders required to file Form 8621 under section 1298(f) and the regulations thereunder must complete Part I. However, a shareholder of a PFIC that is marked to market under a Code provision other than section 1296 (such as section 475) is not required to complete Part I unless it is subject to section 1291 with respect to the PFIC pursuant to Regulations section 1.1291-1(c)(4)(ii). See TD 9806.

Shareholders filing a joint return may file a single Form 8621 with respect to a single PFIC in which each joint filer owns an interest.

Shareholders that are the first U.S. person in the chain of ownership. Regulations section 1.1298-1 generally requires a U.S. person that is at the lowest tier in a chain of ownership (that is, the first U.S. person in the chain of ownership) and that is a shareholder (including an indirect shareholder) of a

PFIC to complete Part I for each PFIC owned by that shareholder during the shareholder's tax year.

Specific filing requirements apply with respect to *domestic grantor trusts*, as described further in these Instructions.

Exceptions to these filing requirements are described below under *Exceptions to Filing Part I*.

Shareholders that are not the first U.S. person in the chain of ownership. In general, an indirect shareholder that is not the first U.S. person in the chain of ownership is not required to complete Part I unless the indirect shareholder:

- Is treated as receiving an excess distribution from the PFIC;
- Is treated as recognizing gain that is treated as an excess distribution as a result of a disposition of the PFIC;
- Is required to include an amount in income under section 1293(a) with respect to the PFIC, unless another shareholder through which the indirect shareholder owns the PFIC files under section 1298(f) with respect to the PFIC and no other exception applies;
- Is required to include an amount in income under section 1296(a) with respect to the PFIC, unless another shareholder through which the indirect shareholder owns the PFIC files under section 1298(f) with respect to the PFIC; or
- Is required to report the status of a section 1294 election with respect to the PFIC.

See Regulations section 1.1298-1(b)(2) for further information.

Domestic grantor trusts. In general, a U.S. grantor of a domestic grantor trust that owns an interest in a PFIC (directly or indirectly) through one or more foreign entities must complete Part I with respect to that PFIC interest. See Regulations sections 1.1291-1(b)(8)(iii)(D) and 1.1298-1(b)(1)(iii). In those circumstances, a domestic grantor trust is not required to complete Part I with respect to the stock of the PFIC that is owned by the grantor. For certain exceptions, see Regulations section 1.1298-1(b)(3)(i).

Exceptions to Filing Part I

A shareholder is exempt from completing Part I if it meets one of the exceptions described below.

Special rules for estates and trusts. Certain U.S. grantors and beneficiaries of estates and trusts may qualify for an exception to filing Part I.

- A U.S. grantor of a domestic grantor trust is not required to complete Part I if the trust is a domestic liquidating trust or a widely held fixed investment trust, as described in Regulations section 1.1298-1(b)(3)(i). In these circumstances, the domestic grantor trust is required to complete Part I.
- In certain situations, a shareholder who is a member or beneficiary of (or participant in) an arrangement treated as a foreign pension fund under a U.S. income tax treaty that owns an interest in a PFIC is not required to complete Part I with respect to the PFIC. See Regulations section 1.1298-1(c)(4).
- A U.S. beneficiary of a foreign nongrantor trust or foreign estate is not required to complete Part I with respect to the stock of the PFIC that is owned by the trust or estate unless it has made a QEF or section 1296 mark-to-market election, received an excess distribution, or recognized gain treated as an excess distribution with respect to the stock of the PFIC. See Regulations section 1.1298-1(b)(3)(ii).

Exempt organizations. In general, if a shareholder of a PFIC is a tax-exempt organization, the shareholder is required to complete Part I only if income derived with respect to the PFIC stock would be taxable to the shareholder under subchapter F. See Regulations section 1.1298-1(c)(1).

Exception if aggregate value of shareholder's PFIC stock is $25,000 or less. A shareholder is not required to complete Part I with respect to a specific section 1291 fund if the shareholder meets the $25,000 exception on the last day of the shareholder's tax year and the shareholder does not receive an excess distribution from, or recognize gain on the sale or disposition of the stock of, the section 1291 fund. For purposes of determining whether a shareholder satisfies the $25,000 threshold, the shareholder takes into account all PFIC stock (QEFs, section 1291 funds, and PFIC stock subject to a section 1296 mark-to-market election) owned directly or indirectly other than PFIC stock owned through another U.S. person or PFIC stock owned through another PFIC. Shareholders filing a joint return have a combined threshold of $50,000 instead of $25,000 for purposes of this exception.

For more information, see Regulations section 1.1298-1(c)(2).

Exception if the value of shareholder's indirect PFIC stock is $5,000 or less. A shareholder is not required to complete Part I with respect to indirect ownership of a specific section 1291 fund if the shareholder meets the $5,000 exception with respect to the section 1291 fund on the last day of the shareholder's tax year and the shareholder does not receive an excess distribution from, or recognize gain on the sale or disposition of the stock of, the section 1291 fund. For purposes of determining whether a shareholder satisfies the $5,000 threshold, the shareholder takes into account only the value of the shareholder's proportionate share of the section 1291 fund.

For more information, see Regulations section 1.1298-1(c)(2).

Line Instructions

Line 1. Describe each class of shares held by the shareholder.

Line 2. Provide the date during the tax year that the shares were acquired, if applicable.

Line 3. List the number of shares held at the end of the tax year.

Line 4. Indicate the value of the shares held at the end of the tax year. Shareholders may rely upon periodic account statements provided at least annually to determine the value of a PFIC unless the shareholder has actual knowledge or reason to know based on readily accessible information that the statements do not reflect a reasonable estimate of the PFIC's value.

Line 5. Indicate the type of PFIC and the amount of any excess distribution or gain treated as an excess distribution under section 1291, inclusion under section 1293, and inclusion or deduction under section 1296.

Note. In cases in which a shareholder's ownership interest in a PFIC is not denominated in shares, the shareholder must provide the information for lines 1 through 4 based on its form of ownership in the PFIC.

Part II. Elections

A. Election To Treat the PFIC as a QEF (Section 1295 Election)

Who May Make the Election

Generally, a U.S. person that owns stock in a PFIC, directly or indirectly, may make Election A to treat the PFIC as a QEF.

Note. A **separate** election must be made for each PFIC that the shareholder wants to treat as a QEF.

Exception. A tax-exempt organization that is not taxable under section 1291 may not make the election. In addition, a tax-exempt organization that is not taxable under section 1291 is not subject to a QEF election made by a pass-through entity.

Chain of ownership. In a chain of ownership, only the first U.S. person that is a direct or indirect shareholder of the PFIC may make the election.

Pass-through entities. A QEF election made by a domestic partnership, S corporation, or estate is made in the pass-through entity's capacity as a shareholder of a PFIC. The entity will include the QEF earnings as income for the year in which the PFIC's tax year ends. The interest holder in the pass-through entity takes the income into account under the rules applicable to inclusions of income from the pass-through entity.

Affiliated groups. The common parent of an affiliated group of corporations that joins in filing a consolidated income tax return makes the QEF election for all members of the affiliated group that are shareholders in the 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 or any time thereafter.

For more information on who may make the election, see Regulations section 1.1295-1(d).

When To Make the Election

Generally, a shareholder must make the election to be treated as a QEF by the due date, including extensions, for filing the shareholder's income tax return for the first tax year to which the election will apply (the "election due date"). See *Retroactive election* below for exceptions. The foreign corporation will be treated as a QEF with respect to the shareholder for the tax year in which the election is made and for each subsequent tax year of the foreign corporation ending with or within a tax year of the shareholder for which the election is effective.

Retroactive election. A shareholder may make a QEF election for a tax year **after** the election due date (a retroactive election) only if:

- The shareholder has preserved its right to make a retroactive election under the *protective statement regime* (described below), or
- The shareholder obtains the permission of the IRS to make a retroactive election under the *consent regime* (described below).

Protective statement regime. Under the protective statement regime, a shareholder may preserve the ability to make a retroactive election if the shareholder:

1. Reasonably believed, as of the due date for making the QEF election, that the foreign corporation was not a PFIC for its tax year that ended during that year (retroactive election year);
2. Filed a Protective Statement (see below) with respect to the foreign corporation, applicable to the retroactive election year, in which the shareholder describes the basis for its reasonable belief;
3. Extended, in the Protective Statement, the periods of limitations on the assessment of taxes under the PFIC rules for all tax years to which the protective statement applies; and
4. Complied with the other terms and conditions of the protective statements.

The Protective Statement must be attached to the shareholder's tax return for the shareholder's first tax year to which the statement will apply. For required content of the statement and other information, see Regulations section 1.1295-3(c).

Consent regime. Under the consent regime, a shareholder that has not satisfied the requirements of the protective regime may request that the IRS permit a retroactive election. The consent regime applies only if:

1. The shareholder reasonably relied on tax advice of a competent and qualified tax professional;
2. The interest of the U.S. Government will not be prejudiced if the consent is granted;
3. The shareholder requests consent before the PFIC status issue is raised on audit; and
4. The shareholder satisfies the procedural requirements under Regulations section 1.1295-3(f)(4).

For more information on making a retroactive election, see Regulations section 1.1295-3.

Special Rules

For rules relating to the invalidation, termination, or revocation of a section 1295 election, see Regulations section 1295-1(i). Also, see Regulations section 1.1295-1(c)(2) for rules relating to the years to which a section 1295 election applies.

How To Make the Election

For the tax year in which the section 1295 election is made, the shareholder must do the following.

1. Check box A in Part II of Form 8621.
2. Complete the applicable lines of Part III. Include the information provided in the *PFIC Annual Information Statement*, *Annual Intermediary Statement*, or a *combined statement* (see below) received from the PFIC.
3. Attach Form 8621 to a timely filed tax return (or, if applicable, partnership or exempt organization return).

For each subsequent tax year in which the election applies and the corporation is treated as a QEF, the shareholder must:

1. Complete the applicable lines of Part III, and
2. Attach Form 8621 to a timely filed tax return (or, if applicable, a partnership or exempt organization return).

Annual Election Requirements of the PFIC or Intermediary

PFIC Annual Information Statement. For each year of the PFIC ending in a tax year of a shareholder to which the QEF election applies, the PFIC must provide the shareholders with a PFIC Annual Information Statement. The statement must contain certain information, including:

1. The shareholder's pro rata share of the PFIC's ordinary earnings and net capital gain for that tax year, or
2. Sufficient information to enable the shareholder to calculate its pro rata share of the PFIC's ordinary earnings and net capital gain for that tax year.

For other information required to be included in the PFIC Annual Information Statement, see Regulations section 1.1295-1(g).

Annual Intermediary Statement. If the shareholder holds stock in a PFIC through an intermediary, an Annual Intermediary Statement may be issued in lieu of the PFIC Annual Information Statement. For the definition of an intermediary, see Regulations section 1.1295-1(j). For details on the information that should be included in the Annual Intermediary Statement, see Regulations section 1.1295-1(g)(3).

Combined statements. A PFIC that owns directly or indirectly any shares of stock in one or more PFICs may provide its shareholders with a PFIC Annual Information Statement in which it combines its own required information and representations with the information and representations of any lower-tier PFIC. Similarly, an intermediary through which a shareholder indirectly holds stock in more than one PFIC may provide the shareholder with a combined Annual Intermediary Statement. For more information, see Regulations section 1.1295-1(g)(4).

Documentation. For all tax years subject to the section 1295 election, the shareholder must keep copies of all Forms 8621, attachments, and PFIC Annual Information Statements or Annual Intermediary Statements. Failure to produce these documents at the request of the IRS may result in invalidation or termination of the section 1295 election. See Regulations section 1.1295-1(f)(2)(ii). In rare and unusual circumstances, the IRS will consider requests for alternative documentation to verify the ordinary earnings and net capital gain of the PFIC. For more information, see Regulations section 1.1295-1(g)(2).

B. Election To Extend Time for Payment of Tax

Who May Make the Election

A shareholder of a QEF may make Election B 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.

Special Rules

- If this election is made, interest will be imposed on the amount of the deferred tax. This interest must be paid on the termination of the election (see the instructions for Part VI, *line 24*, later).
- 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 951 (relating to CFCs).

When To Make the Election

Generally, this election must be made by the due date, including extensions, of the shareholder's tax return for the tax year for which the shareholder reports the income related to the deferred tax.

How To Make the Election

Take these steps to make this election.

1. Check box B in Part II.
2. Complete lines 8a through 9c of Part III.

For more information on making Election B, see Temporary Regulations section 1.1294-1T.

See *Part VI* for annual reporting requirements for outstanding section 1294 elections.

C. Election To Mark to Market PFIC Stock (Section 1296 Election)

Who May Make the Election

Generally, an election to mark to market PFIC stock under section 1296 may be made by:

- A U.S. person who owns (or is treated as owning) *marketable stock* (defined earlier) in a PFIC at the close of such person's tax year, or
- A RIC that meets the requirements of section 1296(e)(2).

For more information, see section 1296 and Regulations section 1.1296-1. See sections 1296(f) and (g) and Regulations sections 1.1296-1(e) and (h)(1)(ii) for information regarding stock owned through certain foreign entities.

When To Make the Election

This election must be made on or before the due date (including extensions) of the U.S. person's income tax return for the tax year in which the stock is marked to market under section 1296. A section 1296 election by a CFC is made by its controlling domestic shareholders (as defined in Regulations section 1.964-1(c)(5)). For more information, see Regulations section 1.1296-1(h)(1)(ii). Once made, the election applies to all subsequent tax years unless the election is revoked or terminated pursuant to Regulations section 1.1296-1(h)(3).

How To Make the Election

Take these steps to make this election.

1. Check box C in Part II.
2. Complete either (a) Part V to calculate the amount due under section 1291 (when required, as generally described in the next paragraph), or (b) Part IV to calculate the gain or loss on the stock in all other cases.

Coordination of Election C with section 1291 for first year of election. In general, when a shareholder makes a mark-to-market election for PFIC stock in a year other than the first year in which the shareholder holds stock in the PFIC and no QEF election is in effect, the PFIC stock is treated as sold at fair market value on the last day of the tax year for which the election is made, and the gain is treated as an excess distribution subject to section 1291. In addition, any distributions made during the year with respect to the PFIC stock are subject to section 1291. See section 1296(j) and Regulations section 1.1296-1(i).

D. Deemed Sale Election in Connection with a QEF Election

Who May Make the Election

This is a deemed sale election under section 1291(d)(2)(A). This election may be made by a U.S. person that elects 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 (an unpedigreed QEF). A shareholder making this election is deemed to have sold the PFIC stock as of the first day of the PFIC's first tax year as a QEF (the qualification date) for its fair market value.

Special Rules

For purposes of this election, the following apply.

- The gain from the deemed sale is taxed as an excess distribution received on the qualification date.
- The basis of the shareholder's PFIC stock held directly, or the stock or other property owned directly by the shareholder through which ownership of the PFIC is attributed to the shareholder, is increased by the gain recognized. The manner in which the basis adjustment is made depends on whether the shareholder is a direct or indirect shareholder. See Regulations section 1.1291-10(f).
- Solely for purposes of applying the PFIC rules, the shareholder's holding period of the stock begins on the qualification date.
- The election may be made for stock on which the shareholder will realize a loss, but that loss cannot be recognized. In addition, there is no basis adjustment for a loss.
- After the deemed sale, the PFIC becomes a pedigreed QEF with respect to the shareholder.

When To Make the Election

This election must be made by the due date, including extensions, of the shareholder's original tax return (or by filing an amended return within 3 years of the due date of the original return) for the tax year that includes the qualification date.

How To Make the Election

Take these steps to make this election.

1. Check box D in Part II.
2. Enter the gain or loss on line 15f of Part V.
3. If a gain is entered, complete line 16 to report the tax and interest due on the excess distribution.

For more information regarding making Election D, see Regulations section 1.1291-10.

E. Deemed Dividend Election in Connection with a QEF Election

Who May Make the Election

This is a deemed dividend election under section 1291(d)(2)(B). This election may be made by a U.S. person that elects 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 (an unpedigreed QEF).

A shareholder making this election is treated as receiving a dividend equal to its pro rata share of the *post-1986 earnings and profits* (defined below in *Special Rules*) of the PFIC on the qualification date (defined under the instructions for *Election D*, earlier). The deemed dividend is taxed as an excess distribution, allocated only to the days in the shareholder's holding period during which the foreign corporation qualified as a PFIC. For this purpose, the shareholder's holding period ends on the day before the qualification date.

Special Rules

For purposes of this election, the following apply.

- The term "post-1986 earnings and profits" means the undistributed earnings and profits of the PFIC (as of the day before the qualification date) accumulated and not distributed in tax years beginning after 1986 during which the foreign corporation was a PFIC and while the shareholder held the stock (but without regard to whether the earnings relate to a period in which the PFIC was a CFC).
- The basis of the shareholder's PFIC stock held directly, or the stock or other property owned directly by the shareholder through which ownership of the PFIC is attributed to the shareholder, is increased by the amount of the deemed dividend. The manner in which the basis adjustment is made depends on whether the shareholder is a direct or indirect shareholder. See Regulations section 1.1291-9(f).
- Solely for purposes of applying the PFIC rules, the shareholder's holding period begins on the qualification date.

When To Make the Election

This election must be made by the due date (including extensions) of the shareholder's original tax return (or by filing an amended return within 3 years of the due date of the original return) for the tax year that includes the qualification date.

How To Make the Election

Take these steps to make this election.

1. Check box E in Part II.
2. Enter the dividend on line 15e of Part V as an excess distribution.
3. Complete line 16 to figure the tax and interest due on the excess distribution.

Attachments. The shareholder must attach a statement to Form 8621 that demonstrates the calculation of its pro rata share of the post-1986 earnings and profits of the PFIC that are treated as distributed to the shareholder on the qualification date. The post-1986 earnings and profits may be reduced (but not below zero) by the amount that the shareholder satisfactorily demonstrates was previously included in its income or in the income of another U.S. person. The shareholder demonstrates this by including in the statement mentioned above the following information:

- The name, address, and identifying number of the U.S. person and the amount that was included in income;
- The tax year in which the amount was previously included in income;
- The provision of law under which the amount was previously included in income;
- A description of the transaction in which the shareholder acquired the stock of the PFIC from the other U.S. person; and
- The provision of law under which the shareholder's holding period includes the holding period of the other U.S. person.

For more information on making Election E, see Regulations section 1.1291-9.

F. Deemed Sale Election with Respect to a Former PFIC or "Section 1297(e) PFIC"

Who May Make the Election

This is a deemed sale election under section 1298(b)(1) and Regulations section 1.1297-3(b) or 1.1298-3(b). This election may be made by:

- A U.S. person that is a shareholder of a foreign corporation that no longer qualifies as a PFIC under either the income or asset test of section 1297(a), or
- A U.S. shareholder (as defined in section 951(b)) that owns stock in a foreign corporation that is a CFC and a PFIC, but that is not treated as a PFIC with respect to the U.S. shareholder under section 1297(d).

Such persons may elect to treat the stock of the foreign corporation as sold for its fair market value on the last day of the last tax year of the foreign corporation in which it was treated as a PFIC (termination date) or the first day on which the qualified portion of the shareholder's holding period in the section 1297(e) PFIC begins (qualification date), as applicable.

Special Rules

- The gain from the deemed sale is taxed as an excess distribution.
- The basis of the shareholder's PFIC stock held directly, or the stock or other property owned directly by the shareholder through which ownership of the PFIC is attributed to the shareholder, is increased by the amount of the excess distribution taxed to the shareholder making Election F. The manner in which the basis adjustment is made depends on whether the shareholder is a direct or indirect shareholder. See Regulations sections 1.1297-3(b)(5) and 1.1298-3(b)(5).
- Solely for purposes of applying the PFIC rules, the new holding period of the stock begins on the date after the termination date or on the qualification date, as applicable.
- Election F may be made for stock on which there would be a loss, but the loss is not recognized.

For more information on making this election, see Regulations sections 1.1297-3(b) (section 1297(e) PFIC) and 1.1298-3(b) (former PFIC).

When To Make the Election

This election must be made by the due date of the shareholder's original tax return (or by filing an amended return within 3 years of the due date, as extended under section 6081, of the original return) for the tax year that includes, as appropriate, either the termination date or qualification date. However, see Form 8621-A (and Regulations sections 1.1297-3(e) and 1.1298-3(e)) if the 3-year period has expired.

How To Make the Election

Take these steps to make this election.

1. Check box F in Part II.
2. Enter the gain or loss on line 15f of Part V. If a gain, complete the rest of Part V.

G. Deemed Dividend Election With Respect to a "Section 1297(e) PFIC"

Who May Make the Election

This is a deemed dividend election under section 1298(b)(1) and Regulations section 1.1297-3(c). This election may be made by a shareholder that is a U.S. shareholder (as defined in section 951(b)) of a foreign corporation that is a CFC and a PFIC, but that is not treated as a PFIC with respect to the U.S. shareholder under section 1297(d).

Special Rules

A shareholder making this election is treated as receiving a dividend of its pro rata share of the post-1986 earnings and profits (defined later in *Attachments*) of the section 1297(e) PFIC on the CFC qualification date (as defined in Regulations section 1.1297-3(d)). The deemed dividend is taxed under section 1291 as an excess distribution, allocated only to the days in the shareholder's holding period during which the foreign corporation qualified as a PFIC. For this purpose, the shareholder's holding period ends on the day before the CFC qualification date. After the deemed dividend election, the shareholder's stock is not treated as stock in a PFIC.

For purposes of this election, the following rules apply:

- The basis of the shareholder's PFIC stock held directly, or the stock or other property owned directly by the shareholder through which ownership of the PFIC is attributed to the shareholder, is increased by the amount of the deemed dividend. The manner in which the basis adjustment is made depends on whether the shareholder is a direct or *indirect shareholder* (as defined earlier). See Regulations section 1.1297-3(c)(6).
- Solely for purposes of applying the PFIC rules, the shareholder's new holding period begins on the CFC qualification date.

When To Make the Election

Make this election by the due date of the shareholder's original return (or by filing an amended return within 3 years of the due date, as extended under section 6081, of the original return) for the tax year that includes the first day on which the qualified portion of the shareholder's holding period in the PFIC begins, as determined under section 1297(d). However, see Form 8621-A (and Regulations section 1.1297-3(e)) if the 3-year period has expired.

How To Make the Election

Take these steps to make this election.

1. Check box G in Part II.
2. Enter the excess distribution on line 15e of Part V.
3. If the excess distribution is greater than zero, complete line 16 to figure the tax and interest due on the excess distribution.
4. Attach to Form 8621 the information specified below.

Attachments

The shareholder must attach a statement to Form 8621 that shows the calculation of its pro rata share of the post-1986 earnings and profits of the section 1297(e) PFIC (as defined in Regulations section 1.1291-9(j)(2)(v)) that is treated as distributed to the shareholder on the CFC qualification date.

- The CFC qualification date, as defined in Regulations section 1.1297-3(d), for the Section 1297(e) PFIC.
- The beginning and ending dates of the tax year of the shareholder in which the CFC qualification date falls (that is, the election year).
- The shareholder's pro rata share of the post-1986 earnings and profits of the Section 1297(e) PFIC that is treated as distributed to the shareholder on the CFC qualification date, including a schedule that shows the calculation of this amount as required under Regulations section 1.1297-3(c)(5)(ii). In addition, if the shareholder filed a Form 5471 for the Section 1297(e) PFIC for the election year, attach Schedule J (Form 5471).

The post-1986 earnings and profits may be reduced (but not below zero) by the amount that the shareholder satisfactorily shows was previously included in its income or in the income of another U.S. person. The shareholder shows this by including in the statement mentioned above the following information:

- The name, address, and identifying number of the U.S. person and the amount that was included in income.
- A description of the transaction in which the shareholder acquired the stock of the Section 1297(e) PFIC from the other U.S. person.
- The tax year in which the amount was previously included in income.
- The provision of law under which the shareholder's holding period includes the holding period of the other U.S. person.

For more information on making Election G, see Regulations section 1.1297-3(c).

H. Deemed Dividend Election With Respect to a Former PFIC

Who May Make the Election

This is a deemed dividend election under section 1298(b)(1) and Regulations section 1.1298-3(c). This election may be made by a shareholder of a foreign corporation that no longer qualifies as a PFIC under either the income or asset test of section 1297(a) if the foreign corporation was a CFC during its last tax year as a PFIC.

Special Rules

A shareholder making this election is treated as receiving a dividend of its pro rata share of the post-1986 earnings and profits (defined below in *Attachments*) of the former PFIC on the termination date (as defined in Regulations section 1.1298-3(d)). The deemed dividend is taxed under section 1291 as an excess distribution, allocated only to the days in the shareholder's holding period during which the foreign corporation qualified as a PFIC. For this purpose, the

shareholder's holding period ends on the termination date. After the deemed dividend election, the shareholder's stock is not treated as stock in a PFIC.

For purposes of this election, the following rules apply:

- The basis of the shareholder's PFIC stock held directly, or the stock or other property owned directly by the shareholder through which ownership of the PFIC is attributed to the shareholder, is increased by the amount of the deemed dividend. The manner in which the basis adjustment is made depends on whether the shareholder is a direct or *indirect shareholder* (as defined earlier). See Regulations section 1.1298-3(c)(6).
- Solely for purposes of applying the PFIC rules, the shareholder's new holding period begins on the day following the termination date.

When To Make the Election

This election must be made by the due date of the shareholder's original return (or by filing an amended return within 3 years of the due date, as extended under section 6081, of the original return) for the tax year that includes the first day on which the qualified portion of the shareholder's holding period in the PFIC begins, as determined under section 1297(d). However, see Form 8621-A (and Regulations section 1.1298-3(e)) if the 3-year period has expired.

How To Make the Election

Take these steps to make this election.

1. Check box H in Part II.
2. Enter the excess distribution on line 15e of Part V.
3. If the excess distribution is greater than zero, complete line 16 to figure the tax and interest due on the excess distribution.
4. Attach to Form 8621 the information specified below.

Attachments

The shareholder must attach a statement to Form 8621 that shows the calculation of its pro rata share of the post-1986 earnings and profits of the former PFIC that is treated as distributed to the shareholder on the termination date.

- The termination date, as defined in Regulations section 1.1298-3(d), for the former PFIC.
- The beginning and ending dates of the tax year of the shareholder in which the termination date falls (that is, the election year).
- The shareholder's pro rata share of the post-1986 earnings and profits of the former PFIC that is treated as distributed to the shareholder on the termination date, including a schedule that shows the calculation of this amount as required under Regulations section 1.1298-3(c)(5)(ii). In addition, if the shareholder filed a Form 5471 for the former PFIC for the election year, attach Schedule J (Form 5471).

The post-1986 earnings and profits may be reduced (but not below zero) by the amount that the shareholder satisfactorily shows was previously included in its income or in the income of another U.S. person. The shareholder shows this by including in the statement mentioned above the following information.

- The name, address, and identifying number of the U.S. person and the amount that was included in income.
- The tax year in which the amount was previously included in income.
- The provision of law under which the amount was previously included in income.
- A description of the transaction in which the shareholder acquired the stock of the former PFIC from the other U.S. person.
- The provision of law under which the shareholder's holding period includes the holding period of the other U.S. person.

For more information on making Election H, see Regulations section 1.1298-3(c).

Part III. Income From a QEF

For any tax year in which the foreign corporation is not treated as a QEF because it is not a PFIC under section 1297(a), the shareholder is not required to complete Part III. However, the section 1295 election is not terminated. If the foreign corporation is treated as a PFIC in any subsequent tax year, the original election continues to apply and the shareholder must include in Part III its pro rata share of ordinary earnings and net capital gain and must also comply with the section 1295 annual reporting requirements.

All QEF shareholders complete lines 6a through 7c. If you are making Election B, also complete lines 8a through 9c.

Lines 6 and 7

Lines 6a and 7a. Enter on lines 6a and 7a, respectively, your pro rata share of the ordinary earnings and net capital gain of the QEF. The PFIC should provide these amounts or information that will help you determine your pro rata share. See *Annual Election Requirements of the PFIC or Intermediary*, earlier.

Lines 6b and 7b. Your share of the ordinary earnings and net capital gain of the QEF is reduced by the amounts you include in income under section 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 ordinary income on your tax return.

For a noncorporate taxpayer, include this amount as "other income" on Schedule 1 (Form 1040), line 8, or on the comparable line of other noncorporate tax returns. For a corporate taxpayer, include this amount as "other income" on line 10 of Form 1120, or on the comparable line of other corporate tax returns.

Line 7c. See the instructions for the Schedule D used for your tax return. Portions of the net capital gain may have to be reported on different lines of Schedule D, depending upon the information provided by the QEF concerning the section 1(h) categories of net capital gains and amounts thereof, derived by the QEF. See Regulations section 1.1293-1(a)(2) for three options a QEF may use to report and calculate capital gain.

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. This amount is not taxable to you if you can satisfactorily demonstrate that the excess was previously included in your income or the income of another U.S. person. This is demonstrated by attaching a statement to Form 8621 that includes the information listed under *Attachments* for Election E, earlier. If the excess has not been previously included in your income or the income of another U.S. person, then the excess

is subject to tax according to the rules of section 301(c).

Line 9

Line 9a. Enter the total tax on your total taxable income (including your share of undistributed earnings of the QEF) for the tax year (for example, from Form 1120, Schedule J, line 11; or Form 1040, line 24).

For this purpose, "undistributed earnings" is 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. For corporations, enter this deferred tax on Form 1120, Schedule J, in brackets to the left of the entry space for line 11. Subtract this deferred tax amount from the sum of lines 7, 8, and 10, and enter the difference on line 11.

For individuals, enter this deferred tax on Form 1040 in brackets to the left of the entry space for line 24. Subtract this deferred tax amount from the sum of lines 22 and 23, and enter the difference on line 24.

Part IV. Gain or (Loss) From a Section 1296 Mark-to-Market Election

A shareholder that has made a mark-to-market election under section 1296 with respect to PFIC stock completes lines 10a through 12 with respect to PFIC stock that the shareholder holds at the close of its tax year, and lines 13a through 14c, with respect to PFIC stock that it sold or disposed of during its tax year.

As discussed earlier in *Mark-to-Market Election*, a shareholder may be required to complete Part V, rather than Part IV, in the first year in which a mark-to-market election is made. See section 1296(j) and Regulations sections 1.1291-1(c)(4) and 1.1296-1(i).

Lines 10a Through 12

If the fair market value of the PFIC stock as of the close of the tax year is more than the U.S. person's adjusted basis in the stock, the excess is treated as ordinary income.

If the adjusted basis of the stock is more than the fair market value as of the close of the tax year, the excess is allowed as a deduction, but only to the extent of, the lesser of:

1. The amount of the excess (line 10c), or
2. The *Unreversed inclusions* (defined below) with respect to such stock (line 11).

This amount is treated as an ordinary loss and as a deduction allowable in computing adjusted gross income.

Unreversed inclusions. Unreversed inclusions are the excess of the amounts that were included in income under the section 1296 mark-to-market rules for prior tax years over the amounts allowed as a deduction under the section 1296 mark-to-market rules for prior tax years. See section 1296(d) and Regulations section 1.1296-1(a)(3).

Lines 10c and 12. Corporations and individuals should include the gain or (loss) on the "other income" line of their tax returns. Other entities should include this amount on the comparable line of their tax return. However, RICs, for purposes of section 851(b), should treat amounts included in income as a dividend.

If a CFC makes a section 1296 mark-to-market election with respect to a PFIC in which it owns stock, any line 10c gain is treated as foreign personal holding company income and any line 12 loss is treated as a deduction that is allocable to foreign personal holding company income.

Lines 13 through 14c

Complete lines 13 through 14c if you sold or otherwise disposed of any section 1296 stock during the tax year. For purposes of lines 13 through 14c, "section 1296 stock" is any stock for which the taxpayer has made a mark-to-market election pursuant to section 1296(a), which is in effect for the tax year and for which the coordination rule of Regulations section 1.1296-1(i) does not apply.

Line 13c. If the fair market value of the stock on the date of sale or disposition (line 13a) is more than the U.S. person's adjusted basis in the stock on the date of sale or disposition (line 13b), the line 13c excess is a gain and is treated as ordinary income. Corporations and individuals should include the gain on the "other income" line of their tax returns. Other entities should include this amount on the comparable line of their tax return. However, RICs, for purposes of section 851(b), should treat this amount as a dividend.

If the adjusted basis of the stock (line 13b) is more than its fair market value (line 13a), the excess is a loss and is entered on line 13c as such. Furthermore, the filer must complete lines 14a and 14b, and, if applicable, line 14c.

Line 14a. Enter any *Unreversed inclusions* with respect to the stock (see definition, earlier).

Line 14b. Enter the loss from line 13c, but only to the extent of unreversed inclusions on line 14a. This loss is treated as ordinary loss. Corporations and individuals should include the loss on the "other income" line of their tax returns. Other entities should include this amount on the comparable line of their tax return.

Line 14c. Enter the amount by which the loss on line 13c is more than the unreversed inclusions. This amount is subject to the rules generally applicable to losses provided elsewhere in the Code and regulations thereunder. See Regulations section 1.1296-1(c)(4)(ii).

Multiple dispositions. In the case of multiple dispositions, attach a statement for each disposition using the same format shown on lines 13 through 14c. Then:

- Enter "multiple" on lines 13a, 13b, and 14a.
- Enter your net ordinary gains on line 13c (do not enter any net losses on line 13c).
- Enter your net ordinary losses on line 14b.
- Enter your net "other" losses on line 14c.

For more information relating to mark-to-market elections under section 1296, see Regulations sections 1.1296-1 and 1.1296-2.

Part V. Distributions From and Dispositions of Stock of a Section 1291 Fund

See *Section 1291 Fund*, earlier, for the definition of a section 1291 fund and also for a brief summary of the tax consequences for shareholders of a section 1291 fund.

Also, see *Section 1291 Fund* and *Mark-to-Market Election*, earlier, for a brief discussion of when a shareholder may be subject to section 1291 in the

year that it makes a mark-to-market election under any provision of the Code, including section 1296.

Complete a separate Part V for each excess distribution. That is, if you receive a distribution from a section 1291 fund with respect to shares for which you have different holding periods, complete lines 15a through 15e separately for each block of shares that has the same holding period ("applicable stock"). If you dispose of stock in a section 1291 fund for which you have different holding periods, complete line 15f for each block of shares that has the same holding period.

Line 15

Lines 15a and 15b

Enter your total distributions from the section 1291 fund with respect to the applicable stock for the periods indicated.

Note. A 10%-or-greater domestic corporation shareholder might be able to claim a deemed paid foreign tax credit under section 902 with respect to a distribution from a section 1291 fund in the fund's tax year beginning before January 1, 2018. See Form 1118, Foreign Tax Credits—Corporations, to calculate the taxes deemed paid and the gross-up amount.

Line 15a. If the holding period of the applicable stock began in the current tax year, there is no excess distribution and you should complete Part V as follows: Enter on line 15a the total distributions you received from the section 1291 fund with respect to that stock during the current tax year. If you did not dispose of that stock during the tax year, do not complete the rest of Part V. If you did dispose of that stock during the tax year, skip lines 15b through 15e and complete lines 15f and 16.

If the holding period of the applicable stock began in the current tax year, the line 15a amount is taxed according to the rules of section 301. To the extent that section 301(c)(1) is applicable, include the amount as a dividend on your income tax return. For corporations, include this line 15a amount on Form 1120, Schedule C, line 14. For individuals, include this line 15a amount on Form 1040, line 3b (and, if applicable, on Schedule B (Form 1040), line 5).

Line 15c. Divide the amount on line 15b 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 15b by that number.

Line 15e

Nonexcess distribution. The nonexcess distribution is the lesser of line 15a or line 15d. This amount is taxed according to the rules of section 301. To the extent that section 301(c)(1) is applicable, include the amount as a dividend on your income tax return. For corporations, include this amount on Form 1120, Schedule C, line 14. For individuals, include this amount on Form 1040, line 3b (and, if applicable, on Schedule B (Form 1040), line 5).

Excess distributions. If you received more than one distribution during the tax year with respect to the applicable stock, the excess distribution is apportioned among all actual distributions. Each apportioned amount is treated as a separate excess distribution.

Line 15f. Gain recognized on the disposition of stock of a section 1291 fund is treated as an excess distribution. Loss realized on the disposition of stock of a section 1291 fund is not taken into account under section 1291 and thus, for example, does not reduce the amount of total gain subject to section 1291. However, the loss may be recognized under another provision of the Code and reported accordingly. Stock of a section 1291 fund is considered disposed of if it is sold, transferred, or pledged.

Line 16

Lines 16a and 16b

Determine the taxation of the excess distribution on a separate sheet and attach it to Form 8621. Divide the amount on line 15e or 15f, 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 the distribution or disposition.

Special rules apply to the holding period if:

- The deemed dividend election (Election E) is made. See the instructions earlier for *Election E*.
- The mark-to-market election (Election C) is made or was made in a prior year (see section 1291(a)(3)(A)(ii)).
- The deemed dividend election with respect to a Section 1297(e) PFIC (Election G) or with respect to a Former PFIC (Election H) is made. See the instructions for *Election G* and *Election H*, earlier.

Determine the amount allocable to each tax year in your holding period by adding the amounts allocated to the days in each such tax year. Add the amounts allocated to the pre-PFIC and current tax years. Enter the sum on line 16b.

This amount is treated as ordinary income (for example, individuals and corporations should enter this amount on the "other income" line of their tax return).

Line 16c. Determine the increase in tax for each tax year in your holding period (other than the current tax year and pre-PFIC years). An increase in tax is determined for each PFIC year by multiplying the part of the excess distribution allocated to each year (as determined on line 16a) by the highest rate of tax under section 1 or section 11, whichever applies, in effect for that tax year. Add the increases in tax computed for all years. Enter the aggregate increases in tax (before credits) on line 16c.

The following table sets forth the highest rate of tax in effect under section 1 (applicable to individuals) for calendar years 1987 through 2020.

Tax Rates

Tax year(s) (based on calendar year taxpayer)	Highest rate of tax in effect under IRC section 1
2018–2020	37%
2013–2017	39.6%
2003–2012	35%
2002	38.6%
2001	39.1%
1993–2000	39.6%
1991–1992	31%
1988–1990	28%
1987	38.5%

Line 16d. 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 withholding taxes paid by the shareholder on the distribution and, in the case of the tax year of a section 1291 fund that begins before 2018, for 10%-or-greater domestic corporate shareholders, any taxes deemed paid under section 902. These 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*, earlier. Those taxes allocated to pre-PFIC tax years and the current tax year 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 PFIC 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 16e. This amount is the total increase in tax and is included on your tax return as additional taxes.

For individuals, include the amount as part of the total for Form 1040, line 16. Check box 3 on line 16 and enter "1291TAX" in the entry space for that box.

For corporations, enter this amount on Form 1120, Schedule J, to the left of the entry space for line 2. Enter "Sec. 1291" next to the amount and include it as part of the total for line 2. Other entities should use the comparable line on their income tax return.

Line 16f. 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.

The amount of interest is determined by using the rates and methods under section 6621. See section 1291(c)(3) for more information regarding the computation of interest, and also see Revenue Ruling 2020-18, 2020-39 I.R.B. 584 (or successor Revenue Ruling) for a list of historical interest rates under section 6621.

For individuals, include the interest as part of the total for Schedule 2 (Form 1040), line 8. Check box c on Schedule 2 (Form 1040), line 8, and enter "1291INT" and the amount of the interest in the entry space for that box.

For corporations, include the interest as part of the total for Form 1120, Schedule J, line 9g. See Instructions for Form 1120, Schedule J, line 9g.

Part VI. Status of Prior Year Section 1294 Elections and Termination of Section 1294 Elections

Each person who has made a section 1294 election must (1) complete lines 17 through 20 to annually report the status of that election, and (2) complete lines 21 through 24 to report the termination of any section 1294 election that occurred during the tax year. See Temporary Regulations section 1.1294-1T(h).

Line 17. Enter the last day of each tax year for which you made a section 1294 election that is outstanding. Enter as MM/DD/YYYY. Do not include an election made in the current tax year.

Line 18. Enter the undistributed earnings of the QEF in the year for which the payment of tax was extended by the section 1294 election entered on line 17. If the election was partially terminated in a prior year, enter the remaining undistributed earnings.

Line 19. Enter the tax for which payment was extended by the section 1294 election entered on line 17. If the election was partially terminated in the previous tax year, enter the balance of the deferred tax from line 25 of the prior year Form 8621.

Line 20. 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 21. Enter the event(s) that occurred during the tax year that terminated one or more of the section 1294 elections reported on line 17. A section 1294 election may be terminated voluntarily. However, an election will terminate automatically, in whole or in part, 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 QEF, including a pledge by the taxpayer of stock as security for a loan; or
- A change of status of the QEF (that is, a foreign corporation that is no longer a QEF or PFIC).

Line 22. Enter the earnings distributed or deemed distributed as a result of the events described on line 21. Earnings are treated as distributed out of the most recently accumulated earnings and profits. 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. Examples are as follows.

- A distribution of earnings will terminate an election to the extent the election is attributable to the earnings distributed.
- A loan, pledge, or guarantee by the QEF made directly or indirectly to the electing shareholder or related person will terminate an election to the extent of the undistributed earnings equal to 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.

For more information, see Regulations section 1.1294-1T(e).

Line 23. Enter the deferred tax due from the termination of the section 1294 election. The deferred tax entered on line 19 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 19 by a fraction, of which the numerator is the amount entered on line 22 and the denominator is the amount entered on line 18. 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 11. Also, enter the deferred tax to the left of line 11 and label it as "Sec. 1294 deferred tax."

For individuals, include the deferred tax as part of the total for Schedule 2 (Form 1040), line 8. Check box c on Schedule 2 (Form 1040), line 8, and enter "1294DT" and the amount of the deferred tax in the entry space for that box.

Line 24. 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.

For 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." Also, include this amount in your check or money order payable to the United States Treasury. If you would otherwise receive a refund, reduce the refund by the interest due.

For individuals, include the interest from line 24 as part of the total for Schedule 2 (Form 1040), line 8. Check box c on Schedule 2 (Form 1040), line 8, and enter "1294INT" and the amount of the interest in the entry space for that box.

Lines 25 and 26. Complete lines 25 and 26 only if a section 1294 election is partially terminated. Enter on line 25 the part of the deferred tax outstanding after the partial termination of the section 1294 election. This amount should equal line 19 minus line 23.

Note. As indicated in the line 19 instructions, for next year, be sure to enter the line 25 amount of this year's Form 8621 on line 19 of next year's Form 8621.

Enter on line 26 the accrued interest remaining after the partial termination of the section 1294 election. This amount should equal line 20 minus line 24.

Disclosure, Privacy Act, and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. Sections 6001, 6011, 6012(a), and 6109, and their regulations, require you to provide this information. We need this information to ensure that you are complying with the Internal Revenue laws and to allow us to figure and determine the right amount of tax. You must fill in all parts of the tax form that apply to you. If you do not file a return under circumstances requiring its filing, do not provide the information we ask for, or provide fraudulent information, you may be charged penalties and be subject to criminal prosecution.

We may disclose your tax information to the Department of Justice for civil and criminal litigation, and to cities, states, the District of Columbia, and U.S. possessions and commonwealths for use in administering their tax laws. We may also disclose to foreign countries pursuant to a treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

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.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and the estimated burden for business taxpayers is approved under OMB control number 1545-0123. The estimated burden for all other taxpayers who file this form is shown below.

Recordkeeping	16 hr., 58 min.
Learning about the law or the form	11 hr., 24 min.
Preparing and sending the form to the IRS	20 hr., 34 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 send us comments from *IRS.gov/FormComments*. Or you can write to the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. **Do not** send the tax form to this office. Instead, see *When and Where To File*, earlier.

Attachment B

QEF Illustration

QEF ELECTION
FOR ILLUSTRATIVE PURPOSES ONLY

The purpose of this illustration is to highlight the U.S. tax impact of an election to treat a PFIC investment as a qualified electing fund ("QEF") investment. Please note that this illustration is not inclusive of all potential scenarios and tax consequences, and you should consult your tax advisor prior to making an election to determine the best course of action for you.

Facts: Ordinary income earned during the tax year ending November 30 Year 1 is $0.35 per share
Capital gains income earned during the tax year ending November 30 Year 1 is $0.24 per share
A dividend distribution of $0.20 per share was paid September 1 Year 1.

Ordinary income earned between December 1 Year 1 and November 30 Year 2 is $0.12 per share
Capital gains income earned between December 1 Year 1 and November 30 Year 2 is $0.48 per share
A dividend distribution of $0.30 per share was paid September 1 Year 2.

Note that in each example the QEF income would be reported 99.5% on a Form 8621 for NBPE and 0.5% on a Form 8621 for NBPEPI.

Example 1
U.S. Investor purchases one (1) share on the first day (December 1) of tax year 1 for $10.00 per share and holds the share on December 31 Year 2.

	Tax Year 1	Tax Year 2
Share of Ordinary Income	$ 0.35	$ 0.12
Share of Capital Gain	$ 0.24	$ 0.48
QEF Inclusion in U.S. Investor's Return	$ 0.59	$ 0.60
Adjusted Basis at Beginning of Year	$ 10.00	$ 10.39
Adjustments to Tax Basis for QEF Inclusions	$ 0.59	$ 0.60
Adjustments to Tax Basis for Dividend out of PTI	$ (0.20)	$ (0.30)
Adjusted Basis at End of Year	$ 10.39	$ 10.69
Dividend income in U.S. Investor's Return	$ - *	$ - *

Example 2
U.S. Investor purchases one (1) share on the first day (December 1) of tax year 1 for $10.00 per share and sells the share on June 1 Year 2 for $9.00.

	Tax Year 1	Tax Year 2
Share of Ordinary Income	$ 0.35	$ 0.06 (50% of Year 2 income)
Share of Capital Gain	$ 0.24	$ 0.24 (50% of Year 2 income)
QEF Inclusion in U.S. Investor's Return	$ 0.59	$ 0.30
Adjusted Basis at Beginning of Year	$ 10.00	$ 10.39
Adjustments to Tax Basis for QEF Inclusions	$ 0.59	$ 0.30
Adjustments to Tax Basis for Dividend out of PTI	$ (0.20)	$ -
Adjusted Basis at End of Year	$ 10.39	$ 10.69
Dividend income in U.S. Investor's Return	$ - *	
Consideration for Shares		$ 9.00
Initial Tax Basis in Shares		$ (10.00)
Adjustments to Tax Basis for QEF Inclusions		$ (0.89)
Adjustments to Tax Basis for Dividend out of PTI		$ 0.20
Gain / (Loss) on Sale of Stock		$ (1.69)

Example 3
U.S. Investor purchases one (1) share on July 31 Year 1 for $10.00 per share and sells the share on October 31 Year 1 for $12.00.

	Tax Year 1
Share of Ordinary Income	$ 0.09 (25% of Year 1 income)
Share of Capital Gain	$ 0.06 (25% of Year 1 income)
QEF Inclusion in U.S. Investor's Return	$ 0.15
Adjusted Basis at Beginning of Year	$ 10.00
Adjustments to Tax Basis for QEF Inclusions	$ 0.15
Adjustments to Tax Basis for Dividend out of PTI	$ (0.15)
Adjusted Basis at End of Year	$ 10.00
Dividend income in U.S. Investor's Return	$ 0.05 *
Consideration for Shares	$ 12.00
Initial Tax Basis in Shares	$ (10.00)
Adjustments to Tax Basis for QEF Inclusions	$ (0.15)
Adjustments to Tax Basis for Dividend out of PTI	$ 0.15
Gain / (Loss) on Sale of Stock	$ 2.00

Example 4
U.S. Investor purchases one (1) share on January 1 Year 2 for $10.00 per share and sells the share on September 30 Year 2 for $9.00.

	Tax Year 2
Share of Ordinary Income	$ 0.09 (75% of Year 2 income)
Share of Capital Gain	$ 0.36 (75% of Year 2 income)
QEF Inclusion in U.S. Investor's Return	$ 0.45
Adjusted Basis at Beginning of Year	$ 10.00
Adjustments to Tax Basis for QEF Inclusions	$ 0.45
Adjustments to Tax Basis for Dividend out of PTI	$ (0.30)
Adjusted Basis at End of Year	$ 10.15
Dividend income in U.S. Investor's Return	$ - *
Consideration for Shares	$ 9.00
Initial Tax Basis in Shares	$ (10.00)
Adjustments to Tax Basis for QEF Inclusions	$ (0.45)
Adjustments to Tax Basis for Dividend out of PTI	$ 0.30
Gain / (Loss) on Sale of Stock	$ (1.15)

** Note: Dividends out of earnings that were previously included in income ("PTI") should not be subject to further tax.*

Attachment C

MTM Illustration

MTM ELECTION
FOR ILLUSTRATIVE PURPOSES ONLY

The purpose of this illustration is to highlight the U.S. tax impact of an election to treat a PFIC investment as a mark to market ("MTM") investment. Please note that this illustration is not inclusive of all potential scenarios and tax consequences, and you should consult your tax advisor prior to making an election to determine the best course of action for you.

Note that in each example the MTM election would only apply to NBPE and that 0.5% of all income would be included on a Form 8621 for NBPEPI. This fractional interest is ignored for these examples.

Example 1

Facts: U.S. Investor purchases one (1) share in July Year 1 for $10.00 per share.
Market value of the share on December 31 Year 1 is $8.00, on December 31 Year 2 is $9.00, and on July 31 Year 3 is $7.00.
A dividend distribution of $0.20 per share was paid September 1 of each year.
The Investor sells the share on July 31 Year 3 for $7.00.

	Tax Year 1	Tax Year 2	Tax Year 3
Adjusted Basis at Beginning of Year	$ 10.00	$ 10.00	$ 10.00
Value at End of Year	$ 8.00	$ 9.00	$ 7.00
Change in PFIC Value	$ (2.00)	$ (1.00)	$ (3.00)
MTM Inclusion in U.S. Investor's Return	$ - *	$ - *	$ - *
Dividend income in U.S. Investor's Return	$ 0.20	$ 0.20	
Consideration for Shares			$ 7.00
Initial Tax Basis in Shares			$ (10.00)
Adjustments to Tax Basis for MTM Inclusions			$ -
Ordinary Gain / (Loss) on Sale of Stock			$ (3.00)

Example 2

Facts: U.S. Investor purchases one (1) share in July Year 1 for $10.00 per share.
Market value of the share on December 31 Year 1 is $8.00, on December 31 Year 2 is $10.50, and on December 31 Year 3 is $13.00.
A dividend distribution of $0.20 per share was paid September 1 of each year.
The Investor sells the share on January 1 Year 4 for $13.00.

	Tax Year 1	Tax Year 2	Tax Year 3	Tax Year 4
Adjusted Basis at Beginning of Year	$ 10.00	$ 10.00	$ 10.50	
Value at End of Year	$ 8.00	$ 10.50	$ 13.00	
Change in PFIC Value	$ (2.00)	$ 0.50	$ 2.50	
MTM Inclusion in U.S. Investor's Return	$ - *	$ 0.50	$ 2.50	
Dividend income in U.S. Investor's Return	$ 0.20	$ 0.20	$ 0.20	
Consideration for Shares				$ 13.00
Initial Tax Basis in Shares				$ (10.00)
Adjustments to Tax Basis for MTM Inclusions				$ (3.00)
Ordinary Gain / (Loss) on Sale of Stock				$ -

Example 3

Facts: U.S. Investor purchases one (1) share in January 1 Year 2 for $9.00 per share.
Market value of the share on December 31 Year 2 is $10.00 and on December 31 Year 3 is $6.00.
A cash distribution of $0.20 per share was paid September 1 of each year. The distribution is considered a dividend.
The Investor sells the share on January 1 Year 4 for $6.00.

	Tax Year 2	Tax Year 3	Tax Year 4
Adjusted Basis at Beginning of Year	$ 9.00	$ 10.00	
Value at End of Year	$ 10.00	$ 6.00	
Change in PFIC Value	$ 1.00	$ (4.00)	
MTM Inclusion in U.S. Investor's Return	$ 1.00	$ (1.00) *	
Dividend income in U.S. Investor's Return	$ 0.20	$ 0.20	
Consideration for Shares			$ 6.00
Initial Tax Basis in Shares			$ (9.00)
Adjustments to Tax Basis for MTM Inclusions			$ -
Ordinary Gain / (Loss) on Sale of Stock			$ (3.00)

**Note: If an MTM election is made, losses can only be utilized to offset taxable income in specific circumstances (i.e. to the extent of unreversed prior MTM inclusions).*