VIEWPOINT: The U.S. Foreign Tax Credit Limitation: How It Works, Why It Matters

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In this article, Rosenbloom explains the foreign tax credit limitation in section 904.

The goal of this essay is modest: to explain the limitation on the foreign tax credit in section 904. A taxpayer is entitled to a dollar-for-dollar credit against its liability for U.S. tax equal to the lower of its available creditable foreign taxes or the applicable FTC limitation. Nothing in this article will be surprising to anyone working in the international tax field. Nothing is intended to be controversial or disputable. Much of what is said will repeat, in simple language, points that have been made before in various publications. There is no argument here, no point of view expressed. This essay is intended merely to demystify the arithmetic of the limitation and to describe in accessible terms how it operates.

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