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2026 ITQS – Compliance update
and controversy

March 24, 2026

21st Annual EY International Tax Quantitative and Reporting Conference

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considerations for a changing tax world

March 23-24, 2026

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CPE eligibility

- We will launch at least three polls per CPE credit.
- Participants must attend the full session and must answer at least three polls per CPE credit to receive full credit.

Welcome

Compliance update and controversy



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Topics

- Changes to Section 958(b)(4) and new Section 951B
- Form updates for tax year 2025
- Section 987 reporting
- Current state of the IRS and controversy implications
- Controversy trends

Objectives

- Describe changes to Section 958(b)(4) and new Section 951B
- Discuss form updates for tax year 2025
- Discuss Section 987 reporting
- Describe current state of the IRS and controversy implications
- Update on controversy trends

01

Changes to Section 958(b)(4) and new Section 951B

Polling 1

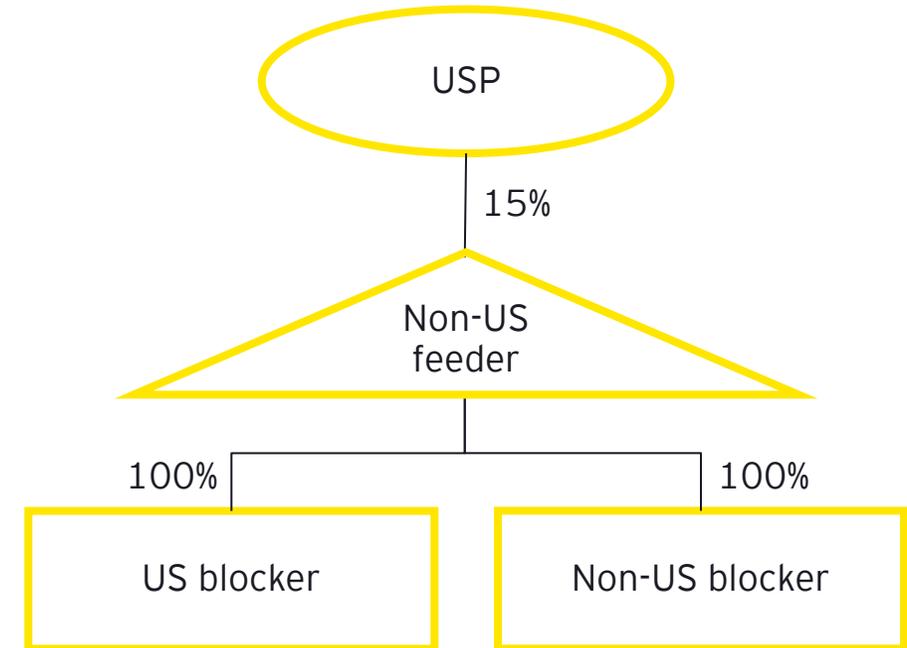
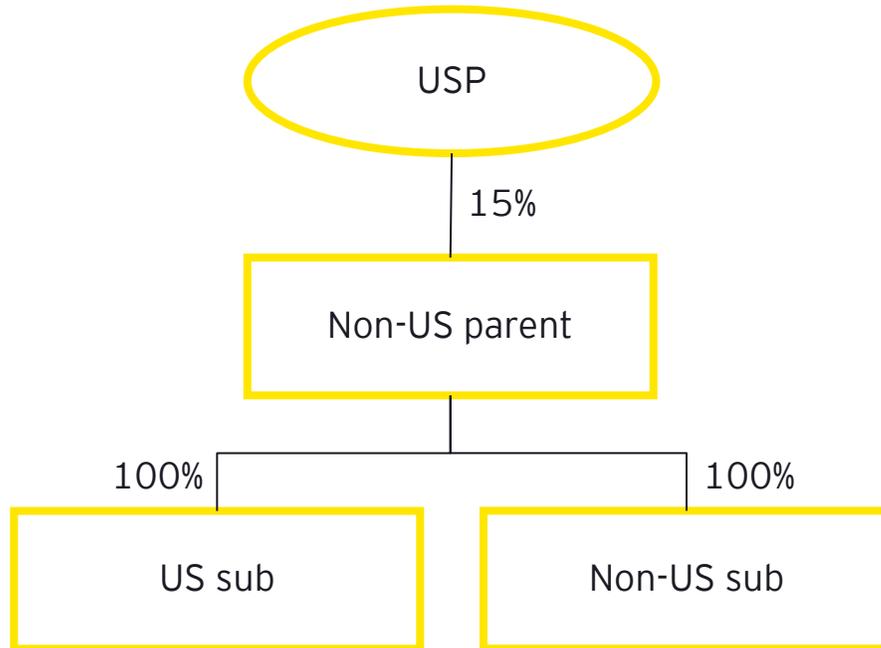
How much time does your team spend determining filing requirements for Form 5471?

- A. None – we roll over prior year
- B. Less than 10 hours
- C. More than 10 hours
- D. N/A (EY associate, faculty, etc.)

Changes to downward attribution

- The One Big Beautiful Bill Act (OBBBA) reinstated Section 958(b)(4) (repealed as part of Tax Cuts and Jobs Act (TCJA)), limiting downward attribution of stock ownership when applying the constructive ownership rules.
- This change eliminated Controlled Foreign Corporation (CFC) status for many foreign corporations that are not controlled (directly or indirectly) by US shareholders.
- However, new Section 951B applies downward attribution from foreign persons in certain circumstances to apply subpart F and Net CFC Tested Income (NCTI) inclusion rules to foreign corporations that would not otherwise be CFCs:
 - Applies to “foreign-controlled US shareholders” (FCUSS) of “foreign-controlled foreign corporations” (FCFC).
 - A FCUSS is a US person that is a US shareholder of a foreign corporation if (i) downward attribution from foreign persons applied and (ii) the definition of US shareholder applied with a threshold of more than 50%.
 - A FCFC is a foreign corporation that is not a CFC but would be a CFC if (i) the definition of CFC is applied to FCUSS instead of US shareholders and (ii) downward attribution from foreign persons applied.

Current law of Section 958(b)(4) example

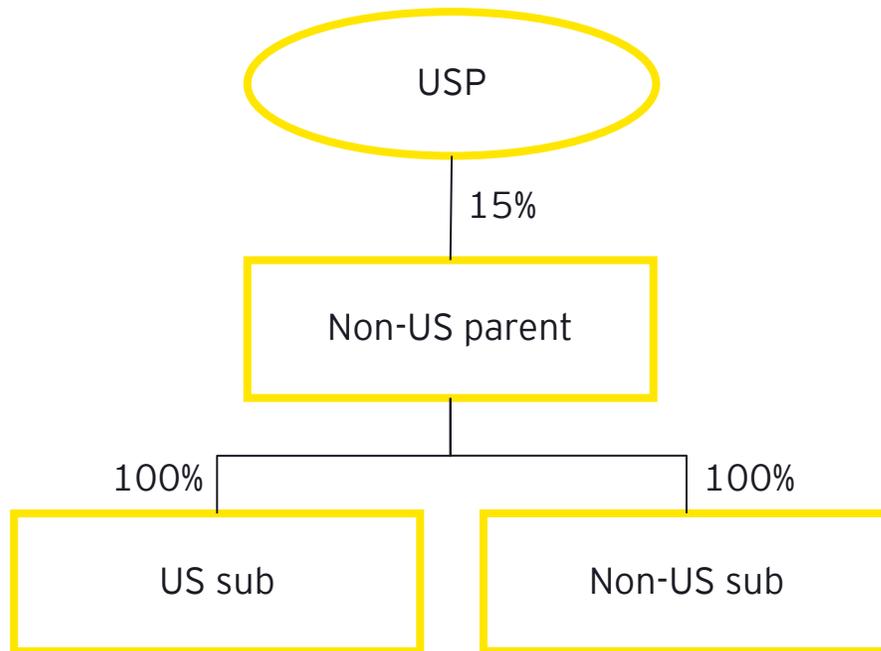


- Prior to reinstatement of Section 958(b)(4), non-US sub and non-US blocker each would have been characterized as CFCs under the Internal Revenue Code.
- Rev. Proc. 2019-40 provided relief from filing obligations.
- Following enactment of OBBBA, CFC status is no longer met and no Form 5471 filing obligations should arise.

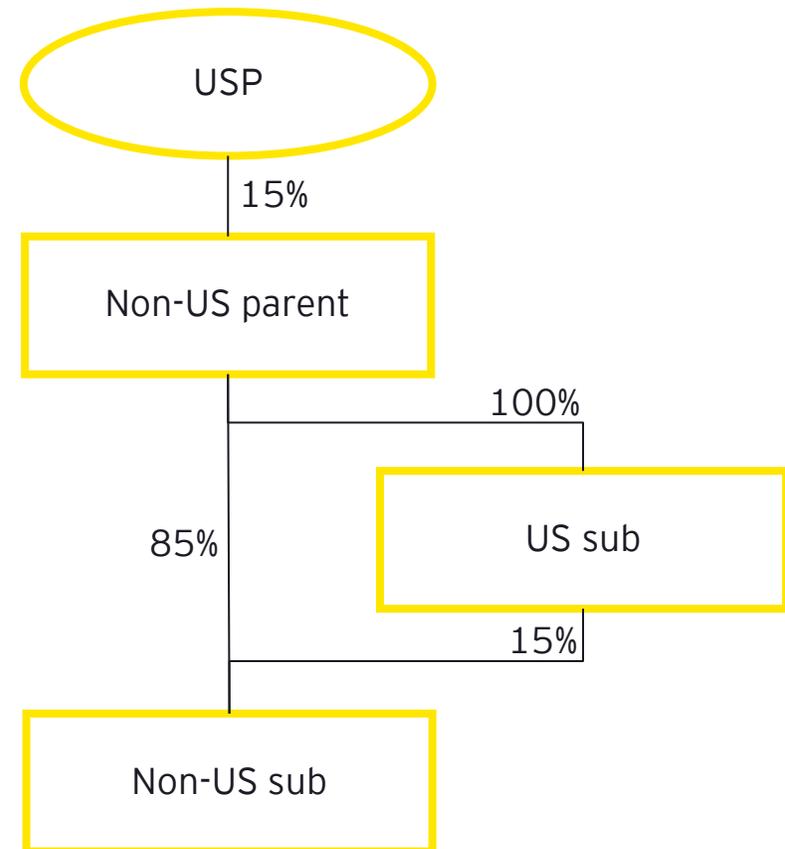
The diagram is for illustrative purposes only and for ease of explanation. Please note that the facts and circumstances for any taxpayer will vary and it is essential that client specific facts and circumstances are independently assessed.

New Section 951B example

No CFC or Form 5471 filing obligations



FCUSS/foreign-controlled CFC illustration



The diagram is for illustrative purposes only and for ease of explanation. Please note that the facts and circumstances for any taxpayer will vary and it is essential that client specific facts and circumstances are independently assessed.

02

Form updates for tax year 2025

Polling 2

Do you outsource, co-source or do your international compliance internally?

- A. Outsource
- B. Co-source
- C. In-house
- D. N/A (EY associate, faculty, etc.)

Summary of changes to international forms

IRS form	Form status	Instruction status	Material changes
FORM 5471	Final Form 5471 released on January 9, 2026	Final Form 5471 instructions posted on January 30, 2026	<ul style="list-style-type: none">▪ Page 1 – new address text box indicating the filer’s room or studio number (aligns with draft Form 1120, etc.).▪ Sch. E – draft instructions provide guidance on the allocation of taxes in connection with the repeal of the one-month deferral election.▪ Sch. G – new Q3b regarding Section 987 qualified business units (QBUs), referencing the new Form 8964-TRA.▪ Sch. G – updated Q8 regarding triangular reorganizations.▪ Sch. G – new line 14, Q22 regarding dividends paid/deemed paid by a CFC that are potentially subject to the pro rata share transition rule.▪ Sch. G – new Q21 regarding earnings and profits (E&P) adjustments attributable to Section 304 transactions.

Form 5471, category of filer update

- Instructions clarify Category 5b and 5c filers cannot file a joint Form 5471 because they do not have the same filing requirements.

Foreign-controlled CFC. For purposes of Category 5b, a foreign-controlled CFC is a foreign corporation that is a CFC that would not be a CFC if the determination were made without applying subparagraphs (A), (B), and (C) of section 318(a)(3) so as to consider a U.S. person as owning stock that is owned by a foreign person.

Example. U, a domestic corporation, owns 15% of the stock of FP, a foreign corporation. FP wholly owns the only class of stock of D, a domestic corporation, and the only class of stock of FS, a foreign corporation. FS is a foreign-controlled CFC because it would not be a CFC without applying subparagraphs (A), (B), and (C) of section 318(a)(3) so as to consider D (a U.S. person) as owning stock that is owned by FP (a foreign person). U is a U.S. shareholder of FS because it indirectly owns 10% or more of the stock of FS. U is an unrelated section 958(a) U.S. shareholder, and thus, a Category 5b filer because it indirectly owns the stock of FS and is not related to FS. D is a U.S. shareholder of FS because it constructively owns the stock of FS directly owned by FP for 50% or more. D is a related constructive U.S. shareholder, and thus, a Category 5c filer because it does not directly or indirectly own the stock of FS and is related to FS. See Category 5c Filer below. D and U cannot file a joint Form 5471 because a Category 5b filer and Category 5c filer do not have the same filing requirements. See [Multiple filers of same information](#), later, for additional information pertaining to the joint filers exception.

Foreign-controlled CFC. For purposes of Category 5c, the term “foreign-controlled CFC” has the same meaning as defined in *Category 5b Filer*, earlier.

Example. FP, a foreign corporation, owns 85% of the only class of stock of FS, a foreign corporation. U, a domestic corporation, owns the remaining 15% of the stock of FS. FP also wholly owns D, a domestic corporation. FS is a foreign-controlled CFC because it would not be a CFC without applying subparagraphs (A), (B), and (C) of section 318(a)(3) so as to consider D (a U.S. person) as owning stock that is owned by FP (a foreign person). D is a U.S. shareholder of FS because it constructively owns 50% or more of the stock of FS directly owned by FP. D is a related constructive U.S. shareholder, and thus, a Category 5c filer because it does not directly or indirectly own the stock of FS and is related to FS. U is a Category 5a filer.

Source: Instructions for Form 5471 (Rev. December 2025))

Form 5471, category of filer update (cont.)

- Instructions also include example to illustrate Notice 2018-13 applicability.

No section 958(a) U.S. shareholder. A Category 5 filer does not have to file Form 5471 if no U.S. shareholder (including the Category 5 filer) owns, within the meaning of section 958(a), stock in the CFC on the last day in the year of the foreign corporation in which it was a CFC and the CFC is a foreign-controlled CFC. See section 5.02 of [Notice 2018-13, 2018-6 I.R.B. 341](#), for additional information.

Example. U, a domestic corporation, owns 9% of the stock of FP, a foreign corporation. FP wholly owns the only class of stock of D, a domestic corporation, and the only class of stock of FS, a foreign corporation. U is not a U.S. shareholder because it does not own, directly, indirectly, or constructively, 10% or more of the stock of FS. Thus, U has no filing requirement. FS is a foreign-controlled CFC because it would not be a CFC without applying subparagraphs (A), (B), and (C) of section 318(a)(3) so as to consider D (a U.S. person) as owning stock that is owned by FP (a foreign person). However, D does not have to file Form 5471 because D, the only U.S. shareholder of FS, does not own, within the meaning of section 958(a), stock in FS, a foreign-controlled CFC.

- Instructions highlight that if taxpayer files on behalf of other persons, pursuant to the joint filers' exception, taxpayer should only check the category or categories that apply to them.

Source: Instructions for Form 5471 (Rev. December 2025))

Summary of changes to international forms

IRS form	Form status	Instruction status	Material changes
Form 8865	Final Form 8865 released on January 6, 2026	Final instructions released on January 6, 2026	<ul style="list-style-type: none"> Page 1 – filer’s address changed from one text box to multiple and Q8 broken out into 8a and 8b with prior Q8 on line 8a and 8b reserved for future use.
Form 1065 K-2/K-3	Final Schedule K-2 released on January 12, 2026 Final Schedule K-3 released on December 17, 2025	Final instructions released on January 12, 2026	<ul style="list-style-type: none"> Schedule K-2 page 1 now includes an amended return checkbox. Part IV, Section 1 (Foreign-Derived Intangible Income (FDII) information) includes new lines 3a and 3b to reflect the new deduction eligible income (DEI) exclusions for income/gain from the disposition of intangible property (as defined in Section 367(d)(4)) and any other property of a type that is subject to depreciation, amortization or depletion by the seller. These new DEI exclusions apply to sales or other dispositions occurring after June 16, 2025. Part X, Section 1 – lines 15 and 16 revised to specify other gains. Part X, Section 1 – lines 19 and 20 revised to specify other income.
Form 8865 K-2/K-3	Final Schedule K-2 released on January 7, 2026 Final Schedule K-3 released on January 6, 2026	Final instructions released on January 12, 2026	<ul style="list-style-type: none"> Schedule K-2 page 1 now includes an amended return checkbox. Part IV, Section 1 (FDII information) includes new lines 3a and 3b to reflect the new DEI exclusions for income/gain from the disposition of intangible property (as defined in Section 367(d)(4)) and any other property of a type that is subject to depreciation, amortization or depletion by the seller. These new DEI exclusions apply to sales or other dispositions occurring after June 16, 2025.

Summary of changes to international forms (cont.)

IRS form	Form status	Instruction status	Material changes
Form 4626 (corporate alternative minimum tax (CAMT))	Final Form 4626 posted on January 8, 2026	Final instructions posted on February 2, 2026	<ul style="list-style-type: none"> Page 1 – New question asking if the corporation filing the Form 4626 has determined it is an applicable corporation in current or prior years. If so, the corporation is not required to complete Form 4616 Part I.
Form 8621 (passive foreign investment company (PFIC))	Final Form 8621 posted on November 26, 2025	Final Form 8621 instructions posted on January 13, 2026	<ul style="list-style-type: none"> Part V – filers now required to enter a currency code above line 15a. Part V – new guidance in instructions regarding determination of excess distribution in a single currency. Part V – new line 15e(2) requesting filers to report the line 15e(1) amount in USD .
Form 1120-F	Final Form 1120-F posted on January 8, 2026	Final instructions posted on January 26, 2026	<ul style="list-style-type: none"> Page 3 – Line GG 2 updated annual gross receipts amount from \$30m to \$31m.
Form 1118 (foreign tax credit (FTC))	Final Form 1118 posted on December 22, 2025	Final Form 1118 instructions posted on December 22, 2025	<ul style="list-style-type: none"> Sch. A – new column 1(b) for codes previously included in column 1 (e.g., Section 951A, High-Tax Kick-Out (HTKO), Section 863(b)). Sch. B, pt 1 – taxes on Previously Taxed Earnings and Profits (PTEP) distributions broken out into two columns, including the PTEP group code. Sch. B, pt 3 – Line 8 was added to clarify calculation. Past year lines 8 and 9 were renumbered to 9 and 10, respectively. Sch. E – now required to include both Section 901 credits on distributions of PTEP and Section 960(b) deemed paid credits (previously just Section 960(b) credits were reported). Sch. E, pt 1 – includes new lines 12-16 breaking out disallowed FTCs. Sch. G – new line H for reduction for disallowed taxes under Section 960(d)(4) (i.e., 10% haircut on FTCs with respect to distributions of Section 951A PTEP).
Form 1118, Schedule L (FTC redeterminations)	Final Form 1118 Schedule L posted on December 9, 2025	Final Form 1118 Schedule L instructions posted on December 9, 2025	<ul style="list-style-type: none"> Part V (contested taxes) – previous column 9 has been split into separate columns for refunds and additional taxes paid.

Summary of changes to international forms (cont.)

IRS form	Form status	Instruction status	Material changes
Form 8990 (Section 163(j))	Final Form 8990 posted on January 8, 2026	Final Form 8990 instructions posted on January 21, 2026	<ul style="list-style-type: none"> Part I, line 11 has been revised to reinstate the adjustment to add back deductions allowable for depreciation, amortization or depletion attributable to a trade or business for purposes of computing adjusted taxable income (ATI).
Form 8991 (Base Erosion and Anti-Abuse Tax (BEAT))	Final Form 8991 instructions suggest no new Form 8991 is anticipated for TY2025	Final Form 8991 instructions posted on January 16, 2026	<ul style="list-style-type: none"> No significant changes – the “background” section in the instructions has been revised to include a brief discussion of the OBBBA and recent guidance under Section 59A for determining and reporting qualified derivative payments (QDPs) for securities lending transactions.
Form 8993 (FDII)	Final Form 8993 posted on January 7, 2026	Final Form 8993 instructions posted on January 8, 2026	<ul style="list-style-type: none"> Part I (deduction eligible income, or DEI) includes new lines 2g and 2h to reflect the new DEI exclusions for income/gain from the disposition of intangible property (as defined in Section 367(d)(4)) and any other property of a type that is subject to depreciation, amortization or depletion by the seller. These new DEI exclusions apply to sales or other dispositions occurring after June 16, 2025.

03

Section 987 reporting

Polling 3

Will the new Forms 8964-TRA and 8964-ELE be impactful to your tax return preparation?

- A. Yes
- B. No
- C. Have not yet assessed impact
- D. N/A (EY associate, faculty, etc.)

New Section 987 forms

IRS form	Form status	Instruction status	Material changes
Form 8964-TRA (Section 987 transitional information)	Final form released on January 12, 2026	Final instructions released on January 12, 2026	<ul style="list-style-type: none">▪ New form to report the Section 987 transition information required under the Section 987 regulations.▪ The instructions indicate that partnerships and S corporations are not required to complete the forms.▪ A separate Form 8964-TRA is required to be completed for each applicable QBU.
Form 8964-ELE (Section 987 elections)	Final form released on January 12, 2026	Final instructions released on January 12, 2026	<ul style="list-style-type: none">▪ New Form 8964-ELE to make or revoke elections under the Section 987 regulations (e.g., current rate election, annual recognition election).

- Form 8964-ELE and Form 8964-TRA should be used, as applicable, for 2025 tax years.
- Reporting of foreign currency gain or loss under Section 987.
- Form 8964 under development – expected draft release for comment in 2026 – not expected to be applicable until 2027.
- Until Form 8964 takes effect, continue to use Form 8858, Schedule C-1.

Section 987 reporting obligations

Form 8964-ELE (December 2025) **Section 987 Elections**
 OMB No. 1545-0123
 Department of the Treasury Internal Revenue Service
 Go to www.irs.gov/form8964ele for instructions and the latest information.
 For tax year beginning , 20 , and ending , 20 .
 Name of filer Filer's identifying number
 Name of authorized person Identifying number Reference ID number (see instructions)
 Number and street (or P.O. box number if mail is not delivered to street address) Room or suite no. City or town State or province ZIP or foreign postal code
 Does the authorized person have multiple owners and/or multiple QBUs? Yes No
 If "Yes," skip Part I and complete Part II.
 If "No," complete Part I and skip Part II.

Part I Identifying Information of Owner and QBU
Section A—Owner information

Part II Listing of QBUs for Authorized Persons With Multiple Owners and/or Multiple QBUs
 Complete Sections A and B and attach statements for authorized persons with multiple owners and QBUs. See instructions.

Section A—QBU information. For authorized persons with multiple QBUs subject to the consistency rules in Regulations section 1.987-1(g)(2).
 See instructions.

Part III Type of Election (see instructions)

- 1 Section 987 Current Rate Election—Regulations section 1.987-1(d)(2)
- 2 Section 987 Annual Recognition Election—Regulations section 1.987-5(b)(2)
- 3 Section 988 Mark-to-Market Election—Regulations section 1.987-3(b)(4)(ii)
- 4 Section 987 Grouping Election—Regulations section 1.987-1(b)(3)(ii)
- 5 Election To Use a Spot Rate Convention—Regulations section 1.987-1(c)(1)(ii)
- 6 Election To Use the Historic Inventory Method—Regulations section 1.987-3(c)(2)(iv)(B)
- 7 Amortization Election in the Transition Rules—Regulations section 1.987-10(e)(5)(i)(A)
- 8 Small Business Election in the Transition Rules—Regulations section 1.987-10(e)(7)(iv)
- 9 Election To Characterize Certain Section 987 Gain/(Loss) as Foreign Currency Gain/(Loss) From Section 988 Transactions—Regulations section 1.987-6(b)(2)(i)(C)(1)
- 10 Recurring Transfer Group Election—Proposed Regulations section 1.987-2(f)(1)

Part IV Other Information

1 Name and title of the representative of authorized person making election whom the IRS may call for more information Representative's telephone number
 2 For CFCs listed in Part I, Section A, Line 1, or Part II, Section A, Line 2, list Controlling Domestic Shareholders and EIN.
 (a) Name of CFC (b) Identifying number (c) Reference ID (d) Name of U.S. Shareholder (e) TIN of U.S. Shareholder (f) Percent of voting stock

Form 8964-TRA (December 2025) **Section 987 Transition Information**
 OMB No. 1545-0123
 Department of the Treasury Internal Revenue Service
 See instructions for a list of products to which Form 8964-TRA can be attached.
 Go to www.irs.gov/form8964tra for instructions and the latest information.
 Information furnished for qualified business unit's tax year beginning , 20 , ending , 20 .
 Name of filer Filer's identifying number
 Name of QBU Identifying number Reference ID number

Part I Section 987 Transition Information
 Provide a description of the prior method used by the taxpayer to determine its section 987 gain or (loss), deferred section 987 gain or (loss), or outbound section 987 (loss) with respect to the section 987 QBU including an explanation as to whether such method was an eligible pretransition method as defined in Regulations section 1.987-10(e)(4). Attach a statement if additional space is needed.

Part II Pretransition Gain or Loss for an Owner that Applied an Eligible Pretransition Method

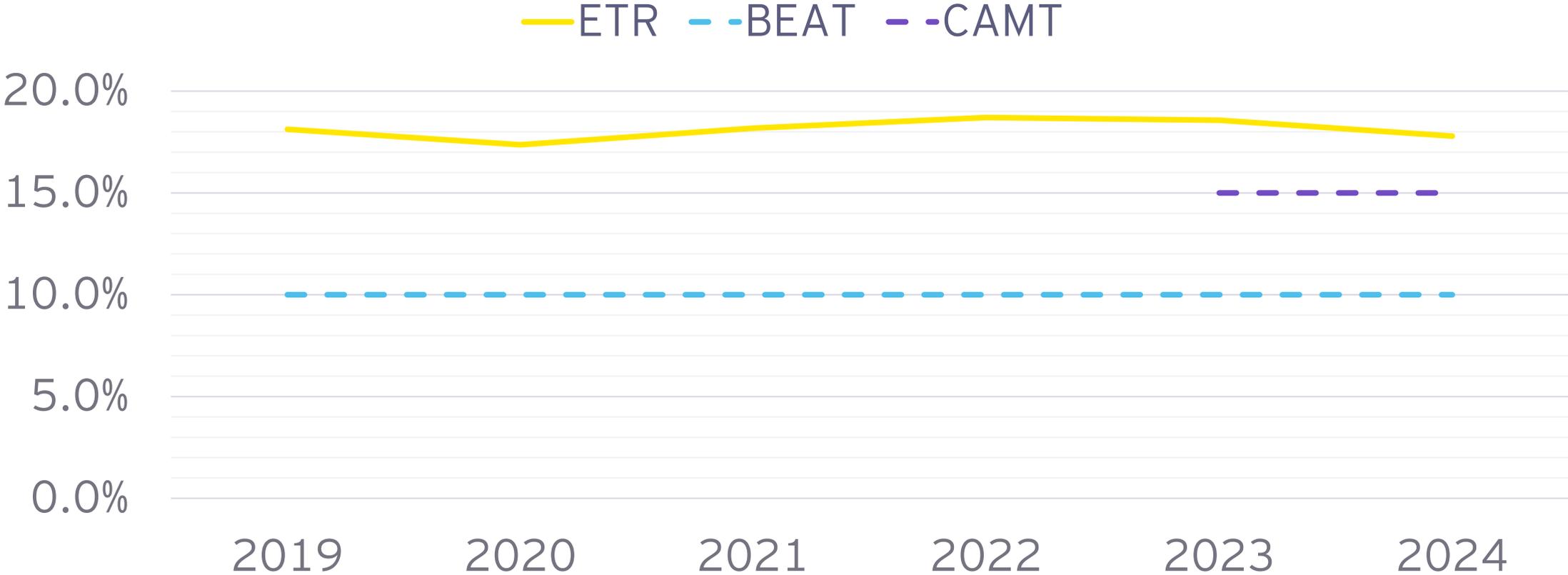
1	Deemed termination amount of section 987 gain or (loss) pursuant to Regulations section 1.987-10(e)(2)(i)(A)	1
2	Basis of the assets, reduced by the amount of liabilities, that are attributable to the section 987 QBU on the day before the transition date translated into the owner's functional currency at the transition exchange rate	2
3	Basis of the assets, reduced by the amount of liabilities, that are attributable to the section 987 QBU on the day before the transition date translated into the owner's functional currency at the pretransition translation rate	3
4	Owner functional currency net value adjustment pursuant to Regulations section 1.987-10(e)(2)(i)(B). Subtract line 3 from line 2	4
5	Amount of pretransition gain or (loss). Add line 1 and line 4	5
6	Amount of pretransition gain or (loss) of a deferral QBU owner. See instructions	6
7	Amount of pretransition (loss) of an owner of an outbound loss QBU. See instructions	7
8	Enter amount of adjustments to prevent duplications or omissions under Regulations section 1.987-10(j). Attach a statement with description and amount	8

Part III Pretransition Gain or Loss for an Owner that did not Apply an Eligible Pretransition Method

1	Sum of the owner's annual unrecognized section 987 gain or (loss) pursuant to Regulations section 1.987-10(e)(3)(i)(A) (attach statement)	1
2	Total net amount of section 987 gain or (loss) recognized by the owner with respect to the section 987 QBU pursuant to Regulations section 1.987-10(e)(3)(i)(B) (attach statement)	2
3	Amount of pretransition gain or (loss). Subtract line 2 from line 1	3
4	Reduction for deferred section 987 gain or (loss), determined under prior Regulations section 1.987-12, recognized before the transition date	4
5	Amount of pretransition gain or (loss) of a deferral QBU owner. Subtract line 4 from line 3	5
6	Reduction for any outbound section 987 (loss) recognized or added to the basis of stock under prior Regulations section 1.987-12 before the transition date	6
7	Amount of pretransition (loss) of an owner of an outbound loss QBU. Subtract line 6 from line 5	7
8	Enter amount of adjustments to prevent duplications or omissions under Regulations section 1.987-10(j). Attach a statement with description and amount	8

Post-OBBBA profile considerations

Random sample of non-GAAP effective tax rates (ETRs)



Source: Researcher of the Day - Community Home



04

Current state of the IRS and controversy implications

Potential impacts from current IRS environment

Environment remains active

- Hiring freeze
- Optional buyout
- Uncertainty on probationary employees
- Leadership changes

Potential impact to IRS

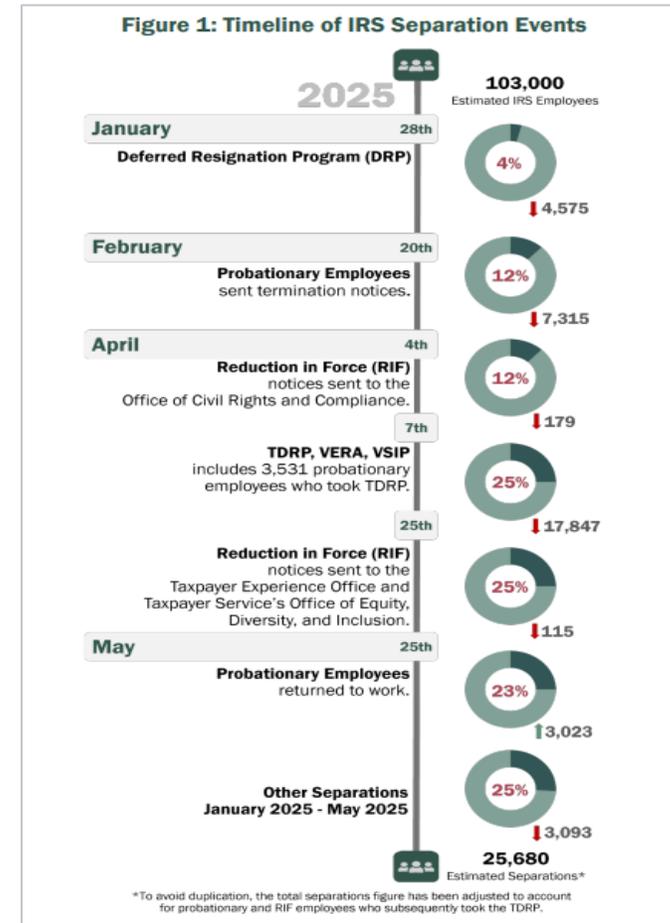
- Exam
- Counsel
- Appeals
- Taxpayer services

Timeline of IRS headcount reduction

Figure 2: Separation Totals



Figure 1: Timeline of IRS Separation Events



IRS headcount reduction efforts as of May 2025

Figure 4: Top 6 IRS Business Units Affected by the Separations with the Count and Percentage Impact



Figure 5: Top 6 IRS Job Series Affected by the Separations with the Count and Percentage Impact

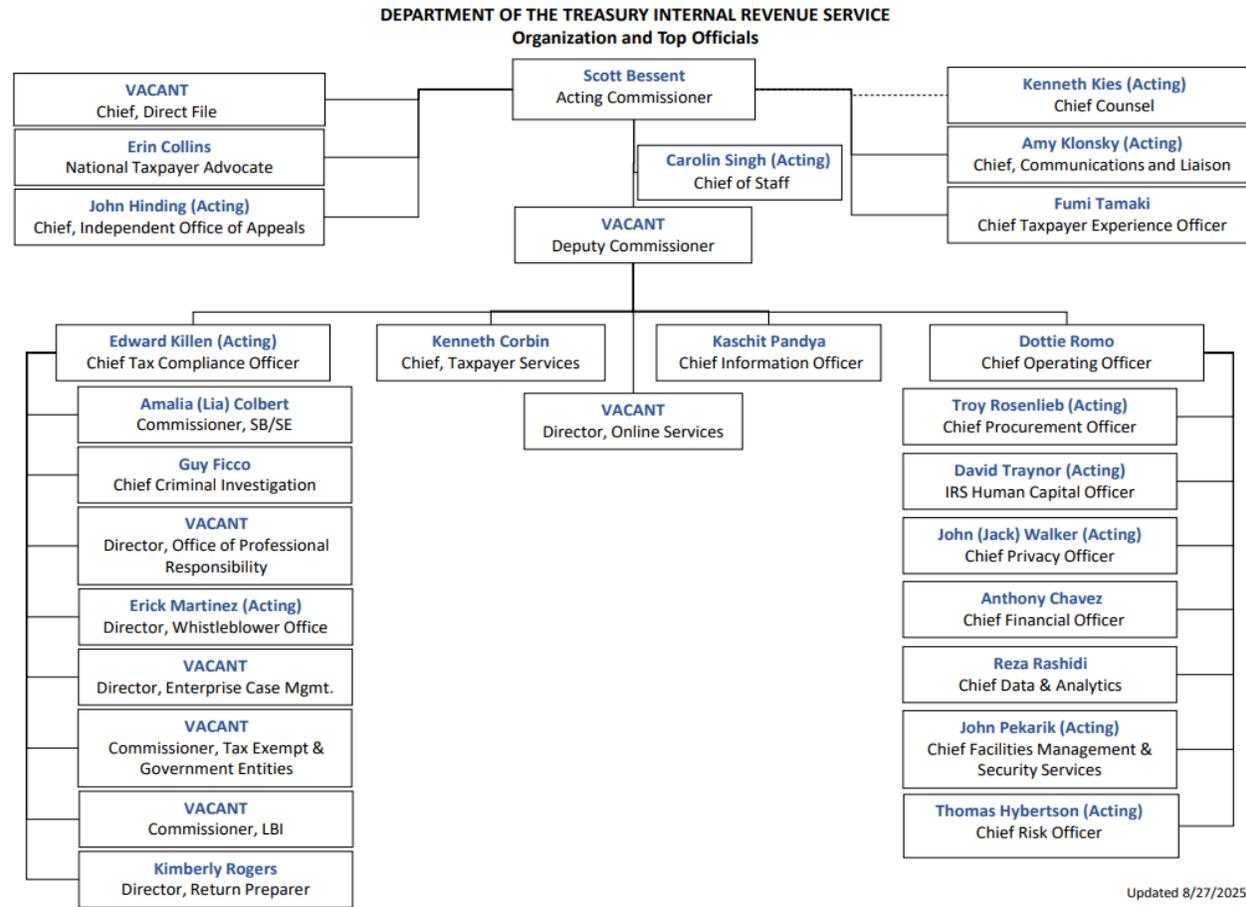


IRS Commissioner turnover

Elected/acting	Name	Term start	Term end
Elected	Daniel Werfel	March 13, 2023	January 20, 2025
Acting	Doug O'Donnell	January 20, 2025	February 28, 2025
Acting	Melanie Krause	February 28, 2025	April 16, 2025
Acting	Gary Shapley	April 16, 2025	April 18, 2025
Acting	Michael Faulkender	April 18, 2025	June 16, 2025
Elected	Billy Long	June 16, 2025	August 8, 2025
Acting	Scott Bessent	August 8, 2025	Present

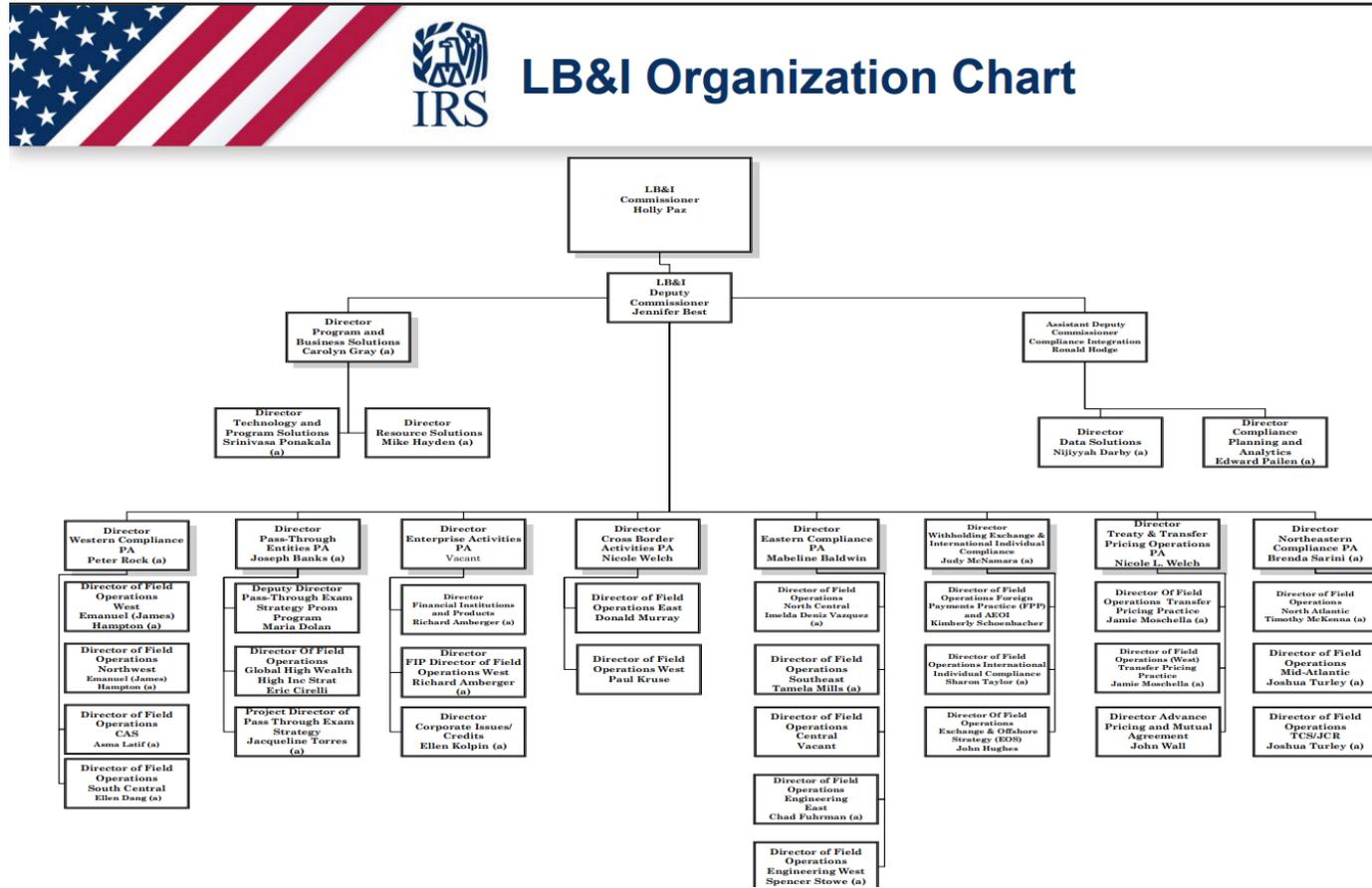
Source: [Previous IRS commissioners, irs.gov](https://www.irs.gov).

IRS upper-level organization as of August 2025



- 12 “acting” leaders
- 6 vacant positions

LB&I positions as of August 2025



Note: Large Business & International Division (LB&I).
Source: [LB&I Organization Chart](#), IRS.gov.

Polling 4

Is your company under audit for tax years 2023 and/or 2024?

- A. Yes, currently under IRS audit
- B. Yes, anticipating an IRS audit soon
- C. No
- D. N/A (EY associate, faculty, etc.)

05

Controversy trends

2026 audit considerations

Audit considerations

- More liberal use of the economic substance doctrine:
 - Particularly in transactions involving losses
- Heightened expectations for substantiation
- Interest expense and Section 163(j) limitations
- Penalties asserted for substantial understatements as a matter of course, requiring the taxpayer to provide a reasonable cause statement
- Transfer pricing:
 - Focus on “high-return” matters and “high-value” cases
 - Provision of services
 - Assertion of penalties on transfer pricing (TP) documentation
 - Use of economic substance doctrine or its contents by any third party

One year after *Loper Bright Enterprises v. Raimondo*

- Tax Court considerations is grappling with the issue:
 - Tax Cuts and Jobs Act (TCJA) cases
 - Theft loss under Treas. Reg. 1.165-1(d)(3)
 - Partnership matters under Treas. Reg. 301.6223-1T
 - Section 6330 challenges
 - Hobby loss challenges
- Compliance implications:
 - How comfortable are taxpayers with reliance positions?
 - How comfortable are taxpayers with challenges to regulations?

Key takeaways

- Describe changes to Section 958(b)(4) and new Section 951B
- Discuss form updates for tax year 2025
- Discuss Section 987 reporting
- Discuss the current operating state of the IRS
- Describe current state of the IRS and controversy considerations
- Update on controversy trends

Thank you and questions

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