20th Annual International Tax Quantitative and Reporting Conference

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March 19-20, 2025

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Welcome

Tax accounting and quantitative considerations

Agenda

1 | Final Dual Consolidated Loss (DCL) regulations

2 | Latest updates under Global Anti-Base Erosion (GloBE)

3 | New requirements under GloBE – tax accounting

4 | Final Section 987 regulations

5 | Proposed Corporate Alternative Minimum Tax (CAMT) regulations

Objectives

1 | Understand the impacts of final and proposed regulations and requirements.

2 | Discuss the tax accounting and qualitative aspects of each topic.

Presenters

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01

Final DCL regulations

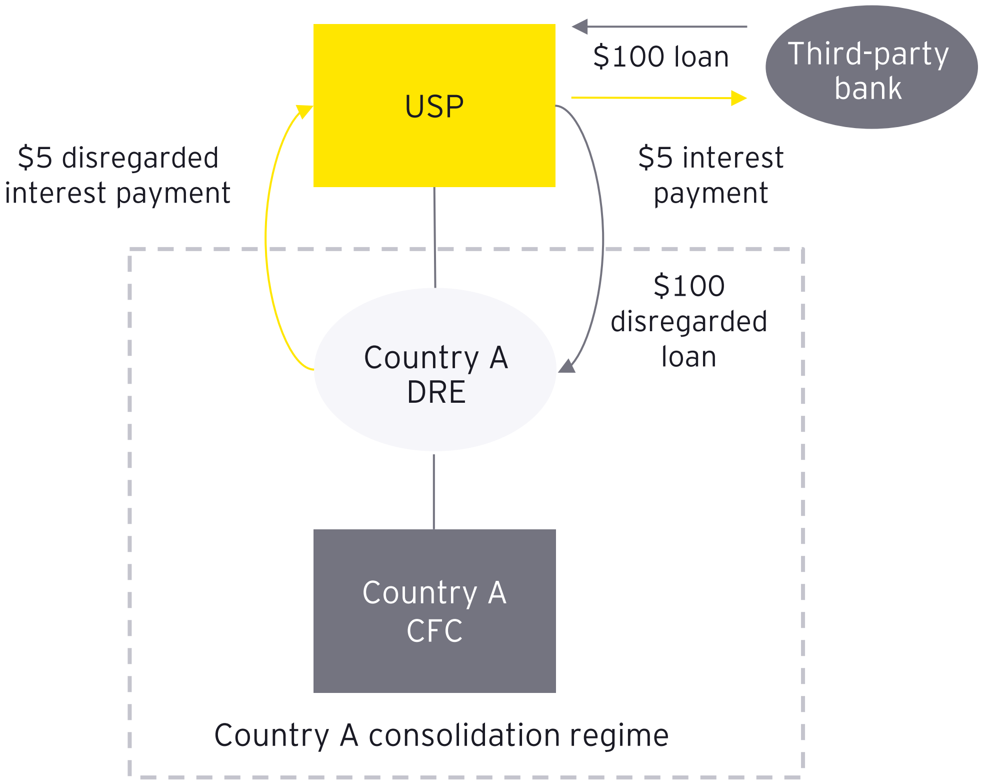
Final DCL regulations — overview

- On January 10, 2025, Treasury and the IRS issued final regulations that implement two key aspects of the proposed DCL regulations issued on August 6, 2024:
  1. The Disregarded Payment Loss (DPL) rules, which require income inclusions for certain disregarded payments that are deductible under foreign law
  2. An anti-avoidance rule applicable to DCLs and DPLs
- The final regulations also make changes to the ordering rule for purposes of determining foreign use.
  - This was not in the proposed DCL regulations.
- Other components of the proposed regulations expected to be addressed in future guidance:
  - Elimination of the "inclusions on stock" rule
  - Interaction of the DCL rules with the intercompany (IC) transaction rules under Treas. Reg. Section 1.1502-13

Applicability dates

- DPL rules
  - Apply to taxable years beginning on or after January 1, 2026
  - Significant delay from proposed effective date
- Anti-avoidance rule
  - Applies to DCLs incurred in tax years ending on or after August 6, 2024
  - Applies to DPLs in tax years beginning on or after January 1, 2026
- New ordering rule
  - Applies to DCLs incurred in tax years beginning on or after January 1, 2026, and to DPLs in tax years beginning on or after January 1, 2026

DPL rules — Illustration



*Example from preamble to final regulations

- Intended to prevent certain disregarded entity (DRE) classifications from avoiding the application of the DCL rules
  - Ex: USP borrows from bank and on-lends loan proceeds to Country A DRE. Single economic borrowing gives rise to deductions under US tax law (USP's interest payments to bank) and foreign tax law (Country A DRE's interest payments to USP), and foreign tax deductions offset foreign income not subject to US tax under Country A consolidation regime.
- Only specific items that give rise to Disregarded Payment Entity (DPE) deductions or income (DPI) under a foreign tax law (considering foreign hybrid mismatch rules), and that are disregarded for US tax purposes, are taken into account:
  - Interest
  - Royalties
  - Structured payments
- If a DPE owner has a DPL, it must disclose it on an initial certification statement and file annual certifications for 60 months confirming no foreign use of the DPL
- If there is foreign use of the DPL or failure to comply with the certification requirements, the DPL must be included in the DPE owner's gross income in the year of the triggering event
- The inclusion is characterized and sourced as if the disregarded payment were regarded interest or royalties.

DPL rules — final regulations' modifications

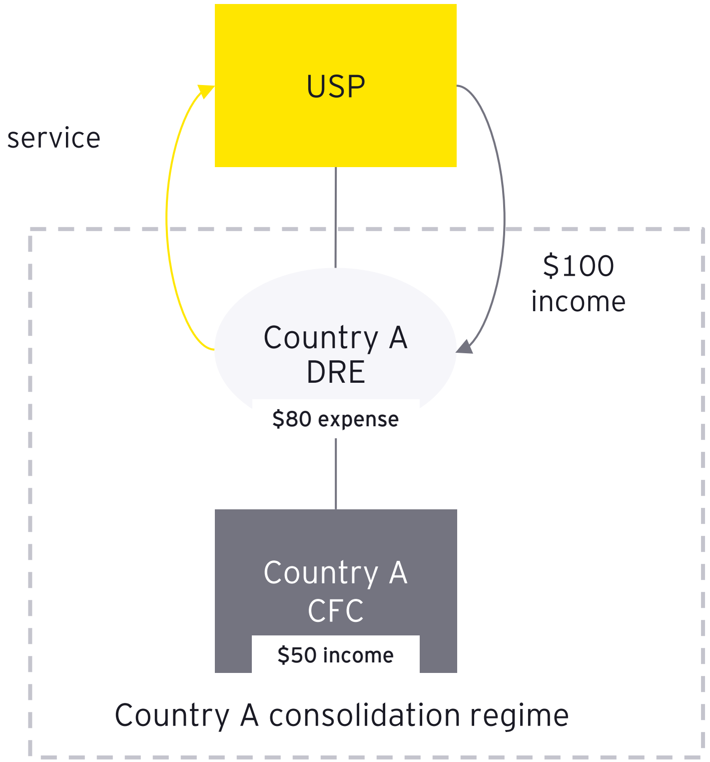
Suspended deductions:

- In the year following a DPL inclusion, DPE owner establishes a "suspended deduction" equal to the DPL inclusion.
- Deduction becomes available in the year it is established or in subsequent years, to the extent of net positive DPI.
  - DPE owner must file a statement disclosing the use of the suspended deduction.
- The deduction is characterized and sourced the same as the related DPL inclusion amount.
- Neither suspended deduction nor DPL inclusion amounts affect the income or DCL of a separate unit or dual resident corporation.

Exception for pre-August 6, 2024, licenses:

- DPL rules do not apply to royalties paid or accrued pursuant to a license agreement executed before August 6, 2024.
- This exception is void if the agreement undergoes significant modifications (e.g., changes in parties or rights):
  - Extensions or term updates alone are not significant modifications.
  - Combined DPEs are treated as single licensors or licensees.

DCL/DPL rules — changes to ordering rules — Illustration



*DRE has a DCL of $80 because its income of $100 is disregarded.

Limitation for deemed ordering rule:

- Losses or deductions first reduce non-foreign use[1] income
- Remaining losses or deductions then reduce foreign use income
- For DPLs, only disregarded interest or royalties are considered
- For DCLs, only regarded items are considered

Under prior regulations:

- The DCL first offsets the disregarded income of $100, which is non-foreign use income.
- Thus, there is no foreign use.

Impact of change:

- The DCL does not offset the disregarded income of $100 but rather offsets the CFC's income of $50.
- Thus, it triggers a foreign use.

[1] A foreign use of a DCL is be deemed to occur when any portion of a deduction or loss taken into account in computing the DCL is made available under the income tax laws of a foreign country to offset or reduce, directly or indirectly, any item that is recognized as income or gain under such laws and that is, or would be, considered under US tax principles to be an item of a foreign corporation. Treas. Reg. § 1.1503(d)-3(a)(i).

Anti-avoidance

- **Proposed regulations**
  - Introduced the anti-avoidance rule allowing “appropriate adjustments” when taxpayers engage in a transaction, series of transactions, plan or arrangement with a view to avoid the purposes of DCL or DPL rules
- **Final regulations**
  - Clarify that the purpose of the anti-avoidance rule is to prevent double deduction and similar outcomes and that restructuring arrangements to avoid the application of the DCL rules or DPL rules that do not result in such outcomes are not within the scope of the rule.
  - Provide additional examples that illustrate the application, the nonapplication, of the anti-avoidance rule.
    - Example 44 and 45

Additional Pillar Two transitional relief

- **Proposed regulations**
  - Provide that the DCL rules apply without regard to the Qualified Domestic Minimum Top-up taxes (QDMTTs) or top-up taxes with respect to losses incurred in taxable years beginning before the proposed regulations were filed with the Federal Register.
- **Final regulations**
  - Extend transitional relief regarding the interaction of DCL rules with the GloBE rules.
  - Future regulations will provide that the DCL rules apply without taking into account QDMTTs or top-up taxes in tax years beginning before August 31, 2025.
  - Taxpayers may rely on this transitional relief until such future final regulations are published in the Federal Register.

Polling question 1

Is your company impacted by the new DCL/DPL rules?

A. Yes

B. No

C. Not applicable

02

Latest updates under GloBE

Executive order: effect of Pillar Two in the United States

- On January 20, 2025, President Trump issued an executive order clarifying that Pillar Two has no force or effect in the United States.
- The executive order requires that the Organisation for Economic Co-operation and Development (OECD) be notified that absent an act by Congress adopting the relevant Pillar Two provisions, any commitments made by the prior administration on behalf of the United States with respect to Pillar Two have no force or effect within the United States.
- In addition, the executive order requires an investigation into any foreign countries that:
  - Are not in compliance with any tax treaty with the United States

  Or

  - Have any tax rules in place, or are likely to put tax rules in place, that are extraterritorial or disproportionately affect American companies.
- The findings of the above investigation and a list of options for protective measures or other actions is to be presented to President Trump within 60 days.

Potential retaliation by the United States

- **Tax bills introduced:**
  - January 22, 2025 (originally introduced May 25, 2023) – Ways & Means Republicans' Defending American Jobs and Investment Act (H.R. 3665) aimed at discouraging countries from adopting the UTPR:
    - Increase taxes on the US businesses of companies headquartered in countries that enact the UTPR and apply in the context of other taxes imposed on US businesses if those taxes meet a set of criteria deeming them to be either extraterritorial or discriminatory in nature.
  - July 18, 2023 – Ways & Means member Rep. Ron Estes' (R-KS) Unfair Tax Prevention Act (H.R. 4695) to amend the Base-Erosion and Anti-Abuse Tax (BEAT) calculation for specified Foreign-Owned Extraterritorial Tax Regime Entities, as another reciprocal tax measure for countries that target the US under the OECD-led agreement.
- **Existing code provisions:**
  - **Section 891**: Generally, doubling tax rates on citizens and corporations of foreign countries when the President finds that the foreign country's laws subject citizens or corporations of the United States to discriminatory or extraterritorial taxes.
    - On January 20, 2025, President Trump issued an executive order on trade policy, which inter-alia, directed an investigation on such discriminatory or extraterritorial taxes pursuant to section 891.
  - **Section 896**: Generally, provides for an adjustment of US tax rules as imposed on persons from a foreign country when US persons are subject to more foreign taxes in that country than local persons.

OECD's January 2025 Pillar Two administrative guidance

- **In January 2025, the OECD released new Pillar Two administrative guidance (AG), addressing the following matters:**
  - Art. 9.1 (in particular, 9.1.2 on disallowance of DTAs arising from certain governmental arrangements)
  - An update to the standardized GloBE Information Return (GIR)
  - A central record of legislation with transitional qualified status
  - A supporting XML schema and a Multilateral Competent Authority Agreement (MCAA) to facilitate central filing and exchange of the GIR

Art. 9.1 – transition rules

Art. 9.1.1

When determining the ETR for a jurisdiction in a Transition Year (i.e., the first Fiscal Year that an MNE Group is subject to GloBE in respect of a jurisdiction) and for each subsequent year, the MNE Group shall take into account all of the deferred tax assets (DTAs) and deferred tax liabilities (DTLs) reflected or disclosed in the financial accounts of all of the Constituent Entities (CEs) in a jurisdiction for the Transition Year (subject to 15% recasting).

Art. 9.1.2

DTAs arising from items excluded from the computation of GloBE Income or Loss under Chapter 3 must be excluded from the Art. 9.1.1 computation when such DTAs are generated in a transaction that takes place after November 30, 2021.

Art. 9.1.3

In the case of a transfer of assets between CEs after November 30, 2021, and before the commencement of a Transition Year, the basis in the acquired assets (other than inventory) shall be based upon the disposing entity's carrying value of the transferred assets upon disposition with the DTAs and DTLs brought into GloBE determined on that basis.

- The February 2023 administration guidance provides certain exceptions to this rule to allow a deemed DTA to be taken into account, including when the seller pays tax in respect of the transaction or there are Other Tax Effects (i.e., DTAs that would have been taken into account under Art. 9.1.1 but was revered or was not created by the disposing entity because gain from the disposition was included in the taxable income of the disposing entity).

- Effective tax rate (ETR)
- Multinational enterprise (MNE)

Administrative Guidance (AG) on Art. 9.1

- Art. 9.1.2
  - **First condition of Art. 9.1.2 –** DTAs must arise from items excluded from GloBE income/loss computation.
    - This condition applies to DTAs associated with "non-economic expenses or losses for tax purposes," as well as those attributable to items expressly excluded under Chapter 3. The following three types of DTAs relating to certain governmental arrangements are specifically singled out as disallowed DTAs under Art. 9.1.2 (Type (a)-(c) DTAs):

Type (a) (e.g., Switzerland)	Type (b) (e.g., Switzerland)	Type (c) (Bermuda)
A DTA attributable to a government arrangement concluded or amended after November 30, 2021, under which the taxpayer is provided with a specific entitlement to a tax credit or other tax relief (including a tax basis step-up) that does not arise independently of the arrangement	A DTA attributable to an election or choice exercised or changed by a CE after November 30, 2021, that retroactively changes the treatment of a transaction in determining its taxable income for a tax year for which the tax authority's assessment was already filed.	A DTA or DTL arising from a difference between tax basis or value and accounting value of an asset or liability if the tax basis/value was established per a corporate income tax newly enacted after November 30, 2021, and before the Transition Year.

    - The AG also lists certain other disallowed and allowed DTAs under Art. 9.1.2 (discussed on the next slide).
  - **Second condition of Art. 9.1.2 –** DTAs must be generated in a post-November 30, 2021 transaction.
    - Art. 9.1.2 can apply to a DTA arising from a transaction that takes place after the Transition Year if the DTA was reflected or disclosed in the financial accounts for the Transition Year.

AG on Art. 9.1 (continued)

- Art. 9.1.2 (cont'd)
  - DTAs expressly listed in the AG
  - Disallowed DTAs
    - Type (a)-(c) DTAs
    - DTAs not attributable to prepayment of tax regrading income that would or will be included in GloBE income/loss
  - Allowed DTAs
    - DTAs attributable to a tax credit or other tax relief arising independently of a governmental arrangement if no critical aspect of the credit or relief, such as the eligibility or amount, relies on discretion exercised by the general government
    - DTAs arising from the reversal of purchase accounting adjustments in a pre-GloBE stock transfer pursuant to Art. 6.2.1(c)
  - Other common fact patterns that could be impacted by Art. 9.1.2
    - Losses created by Granite Trust transactions
    - Impairments allowed in Switzerland and Luxembourg in relation to stock holdings
    - Notional interest deduction carryforwards generated in Malta
    - Inbounding of CFC asset basis acquired in a section 338(g) acquisition
    - Inbounding of section 174 basis in an inbound CFC liquidation or reorganization.
    - DTAs arising from the creation of an "up-C structure" (e.g., a sale of partnership interests by historical owners to a new public company where section 743(b) basis step-up adjustment are made for the assets of the partnership with respect to the public company)

Further work on related benefits

- The Inclusive Framework is developing guidance on "Related Benefits," including:
  - When benefits (such as tax credits, government grants, and other benefits that are calculated based on income or taxes) provided by a jurisdiction must be treated as a refund of tax that reduces Adjusted Covered Taxes
  - Where such benefits are offered by a jurisdiction that has implemented a QDMTT, a mechanism to adjust the amount of QDMTT payable and apply a switch-off mechanism that limits the operation of the QDMTT Safe Harbor
  - How to identify "Related Benefits" and whether they impact the qualified status of a jurisdiction's rules (to be supplemented by an ongoing monitoring process)

03

New requirements under GloBE – tax accounting

GloBE rules — tax accounting and reporting guidance

International Financial Reporting Standards (IFRS)

- The International Accounting Standards Board (IASB) issued a temporary exception from the requirements in IAS 12, **Income Taxes**, to account for deferred taxes arising from substantive enactment of the GloBE Rules:
  - The exception applies until the IASB either removes the exception or makes it permanent.
  - The amendment requires proposed disclosures for periods in which GloBE legislation is enacted or substantively enacted but not yet in effect:
    - Disclose that deferred taxes are temporarily excepted and known or reasonable estimate of potential exposure to Top-up Tax under the GloBE Rules, which may be reflected as a range.
  - After the effective date of GloBE legislation, the amendment requires disclosure GloBE current tax.
  - Individual countries may require endorsement of the amendment before it becomes effective.

GloBE rules — tax accounting and reporting guidance

US Generally Accepted Accounting Principles (GAAP)

- The Financial Accounting Standards Board (FASB) concluded the Top-up Tax under the GloBE Rules is an alternative minimum tax under ASC 740, **Income Taxes.** GloBE Top-up Tax should be recognized in the period it arises, and deferred tax assets and liabilities should not be recognized for future effects of the tax.

Other considerations

- Consider other disclosure frameworks, for example, local public company disclosure requirements such as Securities and Exchange Commission (SEC) Regulation S-K Item 303 requires the disclosure in a registrant's management discussion and analysis (MD&A) of prospective information that is reasonably likely to have a material impact.

Polling question 2

Is your company facing challenges around the implementation of Pillar Two guidance?

A. Yes

B. No

C. Not applicable

04

Final Section 987 regulations

Section 987

Basic concepts 2024 Section 987 final and proposed regulations

- Section 987 determines taxable income or loss and currency gain or loss with respect to a qualified business unit (QBU) whose functional currency differs from its tax owner (a Section 987 QBU).
- On December 10, 2024, the Treasury Department released final regulations (the 2024 Final Regulations) and proposed regulations (the 2024 Proposed Regulations):
  - The 2024 Final Regulations generally apply to tax years beginning after December 31, 2024; however, they apply retroactively to QBUs that terminated on or after November 9, 2023.
  - However, taxpayers can apply the 2024 Final Regulations earlier in certain cases.
  - Consider different CFC and US shareholder tax years.
- Most taxpayers will need to consider:
  1. Transition rules
  2. Post-transition determinations – four options

Section 987

Transition rules

- Taxpayers must determine pre-transition Section 987 gain or loss for each QBU.
  - Pre-transition gain generally treated as net unrecognized Section 987 gain
  - Pre-transition loss generally suspended and recognized to the extent of future gains having the same character and source (loss-to-the-extent-of-gain rule)
- The calculation of any pre-transition Section 987 gain or loss depends on whether the taxpayer has applied an "eligible pretransition method."
- Taxpayers can elect to recognize pre-transition Section 987 gain or loss ratably over 10 years.

Eligible pre-transition method

- Broadly includes any method that complies with the statutory requirements of Section 987 in a reasonable manner
- Includes the 1991 proposed regulations earnings and capital method and certain earnings-only methods
- Compute unrecognized Section 987 gain or loss using existing eligible method through the last day of the tax year before transition (e.g., December 31, 2024)

Ineligible pretransition method

- Compute annual unrecognized Section 987 gain or loss for all tax years **beginning after September 7, 2006**, through the transition date.
- The computation method under the 2024 Final Regulations is generally consistent with the current rate election method, reduced by Section 987 gain or loss previously recognized.

Section 987

Post-transition Section 987 determinations — four options

#1 (Default): Foreign Exchange Exposure Pool (FEEP)

- 10 steps — imputes Section 987 only for marked items
- Taxable income translated at yearly avg/other items at historic
- Recognize gains/losses upon remittance or termination
- Loss-to-the-extent of gain rule generally not applicable

#2 Current rate election

- All assets and liabilities are marked items
  - Taxable income translated at the yearly average exchange rate
  - Balance sheet items translated at the year-end spot rate
- Recognize unrecognized gains/losses upon remittance or termination but subject to a loss suspension rule

Key considerations

- Similar results to the earnings and capital approach
- May result in larger Section 987 gains and losses
- Net Section 987 losses generally suspended
- Triggers loss suspension rules

#3 Annual recognition election

- Net unrecognized Section 987 gain or loss recognized annually on a mark-to-market basis
  - Taxable income generally determined by translating at the yearly average exchange rate
- Generally, no loss suspension
- May be made with FEEP or current rate election

Key considerations

- Generally, does not result in loss suspension
- Taxpayers cannot control timing of Section 987 gain and loss recognition

#4 Current rate election and annual recognition election

- Loss suspension rules generally do not apply
- Simplified compliance, both with respect to rates and annual tracking
- Cannot control timing of recognition

Section 987

Technical issues — the character and source rules really do matter

- Apply for all purposes of the Code, including Sections 904(d), 907 and 954
- Character and source determined based on tax book value of Section 987 QBU's assets:
  - Assignment is made to Section 904 categories, subpart F income and tested income groups.
  - Important election to treat Section 987 gains and losses assigned to passive foreign personal holding company income (FPHCI) groups as attributable to Section 988 transactions not directly related to business needs.
    - May allow netting of certain Section 987 gains or losses of multiple Section 987 QBUs owned by a CFC.
  - Limited reassignment may occur.
- Timing of characterization and source determined by specific ordering rules
  - Transition year for pretransition gain or loss, if 10-year amortization election is made
  - Otherwise, apply specific ordering rules generally based on the earliest taxable year in which Section 987 gain or loss is recognized, deferred, or suspended
- Critical for modeling the impact of:
  - Pre-transition gain or loss
  - Suspended losses under the loss-to-the-extent-of-gain rule
  - Subpart F vs. Global Intangible Low-Taxed Income (GILTI)
  - Foreign tax credits

Section 987
Pre-transition tax provision considerations

- Tax provision impact should have been recorded in the period in which the 2024 Final Regulations were issued (i.e., December 10, 2024).
- Relevant considerations to determine deferred accounting for pre-transition gain/loss:
  - US corporation vs. CFC tax owner of Section 987 QBUs
  - Tax accounting policy for unrecognized Section 987 gain/loss
  - Anticipated elections under final regulations
  - Anticipated source and character of pre-transition gain/loss
  - Subpart F deferred accounting considerations
  - Realizability of deferred tax assets (DTAs) generally (e.g., valuation allowance analysis)
- Intra-period allocation rules. Tax law change impact on deferred taxes is recognized through continuing operations.

Section 987
Post-transition tax provision considerations

- Relevant to quarterly tax provisions for tax years beginning after December 31, 2024
- Best estimate of post-transition Section 987 methodology and potential elections
- Current US taxable income calculations
  - Translate items attributable to Section 987 QBU to tax owner's functional currency
  - Determine any recognized Section 987 gain/loss
- Branch deferred accounting – determine appropriate USD basis in assets and liabilities
- Deferred accounting for unrecognized Section 987 gain/loss (if applicable), considerations include:
  - US corporation vs. CFC tax owner of Section 987 QBUs
  - Tax accounting policy for unrecognized Section 987 gains/losses
  - Anticipated elections under final regulations
  - Anticipated character and source of unrecognized Section 987 gain/loss
  - Suspended loss/loss-to-extent of gain rules
  - Subpart F deferred accounting considerations

Polling question 3

Is your company impacted by the new Section 987 regulations?

A. Yes

B. No

C. Not applicable

05

CAMT regulations

15% corporate minimum tax on book income

Effective for tax years beginning after December 31, 2022

CAMT = Tentative minimum tax − Regular tax liability + Base erosion and anti-abuse tax (BEAT) liability

Tentative minimum tax = 15% x AFSI − CAMT FTCs

Regular tax liability = Regular pre-credit liability − Regular FTCs

- CAMT applies to corporations that have adjusted financial statement income (AFSI) that exceeds certain testing thresholds.
- Once a corporation is subject to CAMT, it is generally subject to CAMT forever, but certain exceptions apply.
- AFSI is the net income or loss reflected on the taxpayer's applicable financial statement (AFS), with certain adjustments.
- AFSI is used to determine whether a corporation is subject to CAMT and whether a corporation subject to CAMT has a liability; however, AFSI is determined differently for each purpose.

Proposed CAMT regulations, September 12, 2024

AFSI

1.56A-1: Definitions and general rules for determining FSI and AFSI	1.56A-2: Definition of AFS and AFS priority rules	1.56A-3: AFSI adjustments for AFS year and tax year differences	1.56A-4: AFSI adjustment and basis determinations with respect to foreign corporations	1.56A-5: AFSI adjustments for partner's distributive share of partnership AFSI	1.56A-6: AFSI adjustments with respect to controlled foreign corporations	1.56A-7: AFSI adjustments with respect to effectively connected income
1.56A-8: AFSI adjustments for certain Federal and foreign income tax	1.56A-9: AFSI adjustments for owners of disregarded entities or branches	1.56A-10: AFSI adjustments for cooperatives	1.56A-11: AFSI adjustments for Alaska Native Corporations	1.56A-12: AFSI adjustments with respect to certain tax credits	1.56A-13: AFSI adjustments for covered plan benefits	1.56A-14: AFSI adjustments for tax-exempt entities
1.56A-15: AFSI adjustments for Section 168 property	1.56A-16: AFSI adjustments for qualified wireless spectrum	1.56A-17: AFSI adjustments to prevent certain duplicates or omissions	1.56A-18: AFSI, CAMT basis and CAMT retained earnings resulting from corporate transactions	1.56A-19: AFSI, CAMT basis and CAMT retained earnings resulting from corporate reorganizations and organizations	1.56A-20: AFSI adjustments to apply certain subchapter K principles	1.56A-21: AFSI adjustments for troubled companies
1.56A-22: AFSI adjustments for certain insurance companies and other specified industries	1.56A-23: AFSI adjustments for financial statement and net operating losses and other attributes	1.56A-24: AFSI adjustments for hedging transactions and hedged items	1.56A-25: AFSI adjustments for mortgage servicing income	1.56A-26: AFSI adjustments for certain related-party transactions and CAMT avoidance transactions	1.56A-27: AFSI adjustments for foreign governments	

Applicable corporation determinations and CAMT FTC

1.59-2: General rules for determining applicable corporation status	1.59-3: Foreign-parented multinational group	1.59-4: CAMT FTC

CAMT for tax consolidated groups

1.1502-53: Consolidated minimum tax credit	1.1502-56A: Consolidated CAMT

CAMT – what are we seeing?

- Little appetite for early adoption of proposed regulations
- Significant compliance burden
- Uncertainty regarding treatment of transactions

Applicability dates

Specified regulations

- Prop. Reg. Sections 1.56A-1, 1.56A-2, 1.56A-3, 1.56A-4, 1.56A-6, 1.56A-7, 1.56A-8, 1.56A-9, 1.56A-10, 1.56A-11, 1.56A-13, 1.56A-14, 1.56A-17, 1.56A-26, 1.56A-27, 1.59-2, 1.59-3, and 1.59-4
- Tax years ending after September 13, 2024

Other regulation sections

- Prop. Reg. Sections 1.56A-5, 1.56A-12, 1.56A-15, 1.56A-16, 1.56A-18, 1.56A-19, 1.56A-20, 1.56A-21, 1.56A-22, 1.56A-23, 1.56A-24, and 1.56A-25
- Tax year ending after date final regulations are published

Consolidated return sections

- Prop. Reg. Sections 1.1502-2, 1.1502-53, and 1.1502-56A
- Consolidated return years for which the due date of the income tax return (without extensions) is after the date final regulations are published

Early reliance

- Specified regulation section – taxpayer and all related parties must rely on all other specified regulation sections
- Other regulation section – taxpayer and all related parties must rely on that section plus all other specified regulation sections

Proposed regulations — early adoption and finalization timing

- Little appetite for early adoption of proposed regulations
  - Consistency requirement
    - Backing out purchase accounting deductions
    - Deemed FMV transfers
    - Disallowed FTCs
    - FPMG definition
    - Etc.
- Uncertainty regarding finalization timing and 2024 return
- Many of the proposed regulations are proposed to be retroactive to 2024
- Finalization before 2024 filing deadline?
- Parallel return preparation process until finalization?
- Will safe harbor be available if regulations aren't finalized?

Compliance burden

- Significant compliance burden
  - Form 4626 Part V
    - Disclosing information for all members of the control group (e.g., other portfolio companies)
    - Avoided if satisfy safe harbor

Form 4626 (2024) Page **7**

Part V **Members of a Controlled Group Treated as a Single Employer and FPMG Members Taken Into Account in "Applicable Corporation" Determination**

	(a) Name of member	(b) EIN of member	(c) Check if the entity is a member of a 59(k)(1)(D) group	(d) Check if the entity is a member of a 59(k)(2)(B) group	(e) EIN/FTIN of the U.S. return (if any) on which the majority of the member's income is reported	(f) Member's financial statement income/(loss)
1			☐	☐		
2			☐	☐		

  - Partnerships
    - Information reporting up and down tiers without a materiality threshold
    - Requirement to request information and respond to requests (next slide)

Partnership reporting and filing requirements

- If a partner cannot determine its distributive share of AFSI without information from the partnership, it generally must request that information from the partnership by the 30th day after the close of the tax year of the partnership.
- A partnership that fails to provide the requested information may be subject to penalties and adjustments.
- If the partnership fails to provide the requested information, the partner must make a "required estimate" in accordance with Prop. Reg. Section 1.56A-5(h)(2)(ii) of its distributive share.
- A "required estimate" must be based on "whatever information [the partner] can reasonably obtain," and the partner must "continue to use its best efforts" to obtain the requested information from the partnership.
- If the required estimate requires the partner to treat a partnership-related item (PRI) inconsistently with how the partnership treated the PRI on its return, the partner must file a notice of inconsistent treatment under Section 6222, unless the partnership is not subject to the centralized partnership audit regime (the BBA rules).
- A partnership that receives a request for CAMT information from a partner must file certain information (e.g., information necessary to determine the denominator of the partner's DSP; the partnership's modified financial statement income (FSI)) with the IRS as required in forms, instructions, or other guidance.

Transactions — gap period

- Uncertainty regarding treatment of transactions, especially in "gap" period
  - Notice 2023-7 provided CAMT relief for certain non-recognition transactions
  - Notice 2023-64 modified the applicability date of Notice 2023-7, applying it to tax years beginning before January 1, 2024, and to years ending before issuance of the proposed regulations (i.e., September 14, 2024
- Most transactional rules in the proposed regulations are proposed to apply to transactions occurring either after September 13, 2024 (international rules), or to years ending after the regulations are finalized (domestic rules)
  - For a calendar filer, it is not clear that any guidance (other than the statute) governs transactions occurring between January 1, 2024, and September 13, 2024.
  - What can/should taxpayers rely on during this "gap period"?
- Other elements of the proposed regulations, notably the Prop. Reg. §1.56A-26(d) rule that requires all transactions be treated as if conducted at fair market value (vs. book value), apply to tax years ending after issuance of the proposed regulations
  - For example, for a calendar filer the deemed FMV rule is proposed to apply to all of 2024, including the "gap period."

Polling question 4

Is your company experiencing additional compliance challenges due to CAMT?

A. Yes

B. No

C. Not applicable

Key takeaways

Now you should be able to ...

1 | Understand the impacts of final and proposed regulations and requirements.

2 | Discuss the tax accounting and qualitative aspects of each topic.

Thank you and questions

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