Subtitle VII, Part A, Subpart III, Section 44701: General requirements. Under that section, Congress charges the FAA with promoting safe flight of civil aircraft in air commerce by prescribing regulations for practices, methods, and procedures the Administrator finds necessary for safety in air commerce. This regulation is within the scope of that authority because it addresses an unsafe condition that is likely to exist or develop on products identified in this rulemaking action.

Regulatory Findings

The FAA determined that this proposed AD would not have federalism implications under Executive Order 13132. This proposed AD would not have a substantial direct effect on the States, on the relationship between the national Government and the States, or on the distribution of power and responsibilities among the various levels of government.

For the reasons discussed above, I certify that the proposed regulation:

(1) Is not a ''significant regulatory action'' under Executive Order 12866,

(2) Would not affect intrastate aviation in Alaska, and

(3) Would not have a significant economic impact, positive or negative, on a substantial number of small entities under the criteria of the Regulatory Flexibility Act.

List of Subjects in 14 CFR Part 39

Air transportation, Aircraft, Aviation safety, Incorporation by reference, Safety.

The Proposed Amendment

Accordingly, under the authority delegated to me by the Administrator, the FAA proposes to amend 14 CFR part 39 as follows:

PART 39—AIRWORTHINESS DIRECTIVES

■ 1. The authority citation for part 39 continues to read as follows:

Authority: 49 U.S.C. 106(g), 40113, 44701.

§ 39.13 [Amended]

■ 2. The FAA amends § 39.13 by:

■ a. Removing Airworthiness Directive 2022–11–15, Amendment 39–22065 (87 FR 34767, June 8, 2022); and

■ b. Adding the following new airworthiness directive:

Rolls-Royce Deutschland Ltd & Co KG: Docket No. FAA–2026–8783; Project Identifier MCAI–2025–01768–E.

(a) Comments Due Date

The FAA must receive comments on this airworthiness directive (AD) by October 5, 2026.

(b) Affected ADs

This AD replaces AD 2022–11–15, Amendment 39–22065 (87 FR 34767, June 8, 2022) (AD 2022–11–15).

(c) Applicability

This AD applies to Rolls-Royce Deutschland Ltd & Co KG (RRD) Model Trent7000–72 and Trent7000–72C engines as identified in European Union Aviation Safety Agency (EASA) AD 2025–0266, dated November 28, 2025 (EASA AD 2025–0266).

(d) Subject

Joint Aircraft System Component (JASC) Code 7250, Turbine Section.

(e) Unsafe Condition

This AD was prompted by in-service experience, which revealed that certain high-pressure turbine (HPT) blades may prematurely deteriorate to an unacceptable condition when managed in accordance with the inspection intervals defined in the RRD engine time limits manual. The FAA is issuing this AD to prevent failure of the HPT blades. The unsafe condition, if not addressed, could result in failure of the engine, in-flight shutdown, and loss of the airplane.

(f) Compliance

Comply with this AD within the compliance times specified, unless already done.

(g) Required Actions

Except as specified in paragraphs (h) and (i) of this AD: Perform all required actions within the compliance times specified in, and in accordance with, EASA AD 2025–0266.

(h) Exceptions to EASA AD 2025–0266

(1) Where EASA AD 2025–0266 refers to its effective date, this AD requires using the effective date of this AD.

(2) Where EASA AD 2025–0266 refers to August 2, 2021 (the effective date of EASA AD 2021–0169 at original issue), this AD requires using July 13, 2022 (the effective date of AD 2022–11–15).

(3) Where the Definitions section of EASA AD 2025–0266 specifies ''The modification SB: Rolls-Royce Service Bulletin (SB) TRENT 1000 72–K336'', this AD requires replacing that text with ''The modification SB: RRD Service Bulletin TRENT 1000 72–K336, Revision 1, dated October 2, 2023''.

(4) This AD does not adopt the ''Remarks'' paragraph of EASA AD 2025–0266.

(i) No Reporting Requirement

Although the service material referenced in EASA AD 2025–0266 specifies to submit certain information to the manufacturer, this AD does not include that requirement.

(j) Alternative Methods of Compliance (AMOCs)

The Manager, AIR–520 Continued Operational Safety Branch, FAA, has the authority to approve AMOCs for this AD, if requested using the procedures found in 14 CFR 39.19. In accordance with 14 CFR 39.19, send your request to your principal inspector or local Flight Standards District Office, as appropriate. If sending information directly to the manager of the AIR–520 Continued Operational Safety Branch, send it to the attention of the person identified in paragraph (k) of this AD and email to: *AMOC@faa.gov.*

(2) Before using any approved AMOC, notify your appropriate principal inspector, or lacking a principal inspector, the manager of the local flight standards district office/certificate holding district office.

(k) Additional Information

For more information about this AD, contact Alexis Whitaker, Aviation Safety Engineer, FAA, 2200 South 216th Street, Des Moines, WA 98198; phone: (516) 228–7309; email: *alexis.j.whitaker@faa.gov.*

(l) Material Incorporated by Reference

(1) The Director of the Federal Register approved the incorporation by reference of the material listed in this paragraph under 5 U.S.C. 552(a) and 1 CFR part 51.

(2) You must use this material as applicable to do the actions required by this AD, unless the AD specifies otherwise.

(i) European Union Aviation Safety Agency (EASA) AD 2025–0266, dated November 28, 2025.

(ii) [Reserved]

(3) For EASA material identified in this AD, contact EASA, Konrad-Adenauer-Ufer 3, 50668 Cologne, Germany; phone: +49 221 8999 000; email: *ADs@easa.europa.eu.* You may find this material on the EASA website at *ad.easa.europa.eu.*

(4) You may view this material at the FAA, Airworthiness Products Section, Operational Safety Branch, 1200 District Avenue, Burlington, MA 01803. For information on the availability of this material at the FAA, call (817) 222–5110.

(5) You may view this material at the National Archives and Records Administration (NARA). For information on the availability of this material at NARA, visit *www.archives.gov/federal-register/cfr/ibr-locations* or email *fr.inspection@nara.gov.*

Issued on August 17, 2026.

Brian Knaup,

Acting Deputy Director, Integrated Certificate Management Division, Aircraft Certification Service.

[FR Doc. 2026–16956 Filed 8–19–26; 8:45 am]

BILLING CODE 4910–13–P

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG–117130–25]

RIN 1545–BR85

Application of Section 250(b)(3)(A)(i)(VII) to Sales or Other Dispositions of Property

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking.

SUMMARY: This document contains proposed regulations under section 250 of the Internal Revenue Code (Code) that provide guidance on certain income of a domestic corporation that is excluded in the determination of deduction eligible income. This category of income consists of income and gain from the sale or other disposition of intangible property and any other property of a type that is subject to depreciation, amortization, or depletion. The proposed regulations would affect domestic corporations with foreign-derived deduction eligible income.

DATES: Written or electronic comments must be received by October 5, 2026.

ADDRESSES: Commenters are strongly encouraged to submit comments electronically via the Federal eRulemaking Portal at *https://www.regulations.gov* (indicate IRS and REG–117130–25) by following the online instructions for submitting comments. Once submitted to the Federal eRulemaking Portal, comments cannot be edited or withdrawn. The Department of the Treasury (Treasury Department) and the IRS will publish for public availability any comment submitted electronically or on paper to its public docket. Send paper submissions to CC:PA:01:PR (REG–117130–25), Room 5503, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044.

FOR FURTHER INFORMATION CONTACT: Concerning the proposed regulations, contact Stefan A. Pruessmann or Michelle L. Ng at (202) 317–6939 (not a toll-free number); concerning submissions of comments and requests for a public hearing, contact the Publications and Regulations Section by email at *publichearings@irs.gov* (preferred) or by telephone at (202) 317–6901 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Authority

This document contains proposed additions and amendments to 26 CFR part 1 (proposed regulations) under section 250 of the Code. The provisions of the proposed regulations are issued pursuant to the express delegation of authority under section 250(b)(3)(A)(i)(VII) and (c). The proposed regulations are also issued pursuant to the express delegation of authority under section 7805(a).

Background

I. Overview of Foreign-Derived Deduction Eligible Income

For taxable years beginning after December 31, 2025, section 250(a)(1) allows a domestic corporation to deduct 33.34 percent of the corporation's foreign-derived deduction eligible income (FDDEI). FDDEI is the deduction eligible income (DEI) of any domestic corporation derived in connection with (i) property sold to any person that is not a United States person and is for a foreign use, or (ii) services provided to any person, or with respect to property, not located within the United States. Section 250(b)(1). Section 250(b)(3)(A) defines DEI as the excess (if any) of a domestic corporation's gross income determined without regard to certain categories of gross income over the expenses and deductions (including taxes), other than interest expense and research or experimental expenditures, properly allocable to such gross income.

II. Changes to Foreign-Derived Deduction Eligible Income Under the One, Big, Beautiful Bill Act

Section 70322(a)(1) of Public Law 119–21, 139 Stat. 72 (July 4, 2025), commonly known as the One, Big, Beautiful Bill Act (OBBBA), amended section 250(b)(3)(A)(i) to add a new category of income that is excluded from the determination of DEI. *See* section 250(b)(3)(A)(i)(VII). Specifically, for purposes of determining DEI and except as otherwise provided by the Secretary, section 250(b)(3)(A)(i)(VII)(aa) and (bb) excludes from gross income any income and gain from the sale or other disposition (including pursuant to the deemed sale or other deemed disposition or a transaction subject to section 367(d)) 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, respectively.

Additionally, section 70322(a)(2) of the OBBBA amended section 250(b)(5)(E) (defining the terms ''sold,'' ''sells,'' and ''sale'', collectively, ''sale'') to provide that section 250(b)(5)(E) does not apply for purposes of the new category of gross income excluded from the determination of DEI in section 250(b)(3)(A)(i)(VII).[1] For purposes of section 250(b), except for paragraph (3)(A)(i)(VII) as amended by the OBBBA, the terms ''sold,'' ''sells,'' and ''sale'' included any lease, license, exchange, or other disposition. Section 250(b)(2)(E). Therefore, the general definition of sale under section 250 (which includes leases, licenses, exchanges, or other dispositions) does not apply to sales described in section 250(b)(3)(A)(i)(VII).

Section 70322(a)(3) of the OBBBA provides that the amendments to exclude income and gain from certain property sales, and the modification to the general definition of sale, apply to sales or other dispositions (including pursuant to deemed sales or other deemed dispositions or transactions subject to section 367(d)) occurring after June 16, 2025.

Section 70321(a) amended section 250(a)(1) by reducing the percentage of FDDEI permitted to be deducted under section 250 from 37.5 percent to 33.34 percent. Section 70322(b)(1) of the OBBBA amended section 250(b)(3)(A)(ii), which provides rules regarding the deductions properly allocable to DEI. Section 70323(b) of the OBBBA removed the deemed intangible income (DII) and deemed tangible income return (DTIR) components from the computation of foreign-derived intangible income (FDII), replaced ''foreign-derived intangible income'' with ''foreign-derived deduction eligible income,'' and made conforming amendments to reflect the revised terms and redesignated provisions, effective for taxable years beginning after December 31, 2025.

III. Notice 2025–78

On December 4, 2025, the Treasury Department and the IRS released Notice 2025–78, 2025–52 I.R.B. 874, describing rules expected to be included in forthcoming proposed regulations addressing the scope of certain property sales or dispositions that are excluded from the determination of DEI under section 250(b)(3)(A)(i)(VII), which, when finalized, would apply to sales or other dispositions occurring after June 16, 2025. However, Notice 2025–78 permitted taxpayers to rely on the rules described therein for sales or other dispositions occurring after June 16, 2025, and before these proposed regulations are published in the **Federal Register**, provided taxpayers apply the rules in their entirety and in a consistent manner for all applicable taxable years.

Explanation of Provisions

I. Overview

Consistent with Notice 2025–78, the proposed regulations would address the meaning and scope of section 250(b)(3)(A)(i)(VII), which, as noted previously, excludes from DEI income and gain from the sale or other disposition of (1) intangible property and (2) other property of a type subject to depreciation, amortization, or

[1] Section 250(b)(5)(E) was redesignated section 250(b)(2)(E) by section 70323(b)(2)(B)(ii) of the OBBBA for taxable years beginning after December 31, 2025. Unless otherwise indicated, references to section 250 in this preamble are with respect to section 250, as amended by the OBBBA.

depletion by the seller. The proposed regulations would also modify certain regulations under section 250 to reflect other amendments under the OBBBA and to clarify that FDDEI remains a subset of DEI.

The Treasury Department and the IRS intend to address other changes made by the OBBBA, including with respect to the deductions properly allocable to DEI and the removal of the DTIR and DII from the FDII calculation, in separate guidance.

II. Excluded Property Sales Income

A. In General

Under proposed § 1.250(b)–1(c)(15)(vii), gross DEI would be determined without regard to a new category of gross income, ''excluded property sales income.'' Proposed § 1.250(b)–1(h) would provide rules to determine whether income and gain from the sale or disposition of certain property to any person is treated as excluded property sales income. Proposed § 1.250(b)–1(h)(1) would define ''excluded property sales income'' to mean any income and gain derived from the sale or other disposition of two categories of property: intangible property and ''other excluded property.''

B. Intangible Property

Section 250(b)(3)(A)(i)(VII)(aa) excludes sales or dispositions of intangible property, as defined in section 367(d)(4), from DEI (and, thus, from FDDEI). Existing regulations under section 250 define intangible property by reference to section 367(d)(4) and specify that, for purposes of section 250, intangible property does not include a copyrighted article as defined in § 1.861–18(c)(3). *See* § 1.250(b)–3(b)(11). Thus, for purposes of section 250, a copyrighted article includes a copy of digital content from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. *See* § 1.861–18(c)(3).

Section 3.01(3) of Notice 2025–78 used the same definition of intangible property as the existing section 250 regulations, including that this term does not include a copyrighted article as described in § 1.861–18(c)(3). Proposed § 1.250(b)–1(h)(1)(i) would provide the same definition of intangible property by reference to § 1.250(b)–3(b)(11). *See* proposed § 1.250(b)–1(h)(1)(i).

Comments in response to Notice 2025–78 requested further clarity on the treatment of software transactions in the context of intangible property and other excluded property. These comments are addressed below in part II.E of this Explanation of Provisions section.

C. Other Excluded Property

Consistent with section 3.01(4) of Notice 2025–78, the proposed regulations would generally define property of a type that is subject to depreciation, amortization, or depletion (other excluded property) as property that, in the hands of the seller, is or has been of a character subject to the allowance for depreciation, or is or has been subject to an allowance for amortization or depletion. *See* proposed § 1.250(b)–1(h)(2)(ii). Therefore, other excluded property would not include, for example, property that has always been held as inventory by the seller because such property would not be ''of a character'' subject to the allowance for depreciation.

For property subject to depreciation under section 167, the proposed regulations would adopt the phrase ''property of a character subject to the allowance for depreciation under section 167'' to interpret the phrase ''property of a type that is subject to depreciation'' that appears in section 250(b)(3)(A)(i)(VII)(bb). This phrasing is adopted because it is a term of art commonly used to describe property depreciated under section 167, including by Congress in other Code provisions that reference section 167, such as sections 174A(c)(1) (Domestic research or experimental expenditures), 197(f)(7) (Amortization of goodwill and certain other intangibles), 1221(a)(2) (Capital asset defined), and 1231(b)(1) (Property used in the trade or business and involuntary conversions).

Consistent with section 3.01(6) of Notice 2025–78, the proposed regulations would generally provide that other excluded property retains its character in the hands of certain related parties if acquired pursuant to a basis-carryover transaction with a principal purpose of avoiding the application of section 250(b)(3)(A)(i)(VII)(bb). *See* proposed § 1.250(b)–1(h)(3).

A comment in response to Notice 2025–78 requested a ''remanufacturing'' exception, such that other excluded property would not include previously depreciated property that is materially transformed or remanufactured into property held for sale as inventory. The commenter noted that companies often lease or use high-value assets in their trade or business and later repurpose, remanufacture, or refurbish such property for sale to unrelated foreign customers. The commenter asserted that including gain from property that reflects new investment, value creation, and foreign-market expansion as excluded property sales income is inconsistent with the treatment of inventory or newly manufactured property, the income and gain from which is not subject to the exclusion in section 250(b)(3)(A)(i)(VII)(bb). The commenter also recommended a depreciation recapture limitation for taxpayers that do not remanufacture property that would limit the portion of the gain from other excluded property to the amount that reflects previously claimed depreciation, with any gain above that amount remaining eligible for DEI and, therefore, FDDEI. Recognizing concerns with related party transactions that obscure prior use or artificially qualify gain for FDDEI, the commenter supported the continued application of the related-party anti-abuse rule under section 3.01(6) of Notice 2025–78, and suggested the depreciation recapture limitation could be inapplicable if the asset was acquired from a related party with a principal purpose of avoiding exclusion.

The proposed regulations would not adopt the requested remanufacturing exception or the depreciation recapture limitation. The Treasury Department and the IRS are of the view that the phrase in section 250(b)(3)(A)(i)(VII)(bb), ''other property of a type that is subject to depreciation, amortization, or depletion by the seller,'' would include, for example, property that has been subject to *any* depreciation in the hands of the seller. Thus, property previously depreciated in a trade or business and repurposed, remanufactured, or refurbished into inventory would retain its characterization as property subject to depreciation. Furthermore, the requested depreciation recapture limitation is contrary to section 250(b)(3)(A)(i)(VII), which excludes all income and gain from the sale or other disposition of referenced property and does not suggest a limitation to depreciation recapture. As a result, the proposed regulations do not include the requested exception or limitation.

D. Sales or Other Dispositions

As explained in the Background section of this preamble, the general definition of ''sale'' for section 250 purposes does not apply for purposes of section 250(b)(3)(A)(i)(VII). Instead, and consistent with section 3.01(2) of Notice 2025–78, the proposed regulations would determine a sale or other disposition for this purpose under general Federal income tax principles and include deemed sales, transactions subject to section 367(d), and other deemed dispositions. Accordingly, any transaction or election that is treated as a sale or other disposition of property for Federal income tax purposes (rather than a sale under the broader definition of ''sale'' for section 250 purposes that includes leases and licenses) would be considered a sale or other disposition under proposed § 1.250(b)–1(h)(2)(iii).

In order to conform to the statutory changes, the proposed regulations would remove and reserve several examples in § 1.250(b)–4(d)(2)(iv)(B) that involve the sale of intangible property.

E. Software Transactions

Section 1.861–18 provides rules for classifying transactions involving software and other digital content for purposes of section 250 and certain other provisions. § 1.861–18(a)(1). As explained above in part II.B of this Explanation of Provisions section, and consistent with the approach taken in the existing 250 regulations, Notice 2025–78 provided that intangible property does not include a copyrighted article as defined in § 1.861–18(c)(3). Two commenters agreed with the approach to exclude copyrighted articles from intangible property in Notice 2025–78 and requested additional examples and clarifications in the software context.

Commenters requested modifying the facts in Example 1 of Notice 2025–78, which illustrates a software transaction that would be treated as a sale of intangible property, to provide additional details on the form of consideration and the transferee's use of the property. However, the Treasury Department and the IRS are of the view that the sale versus license determination does not depend on the form of consideration or the transferee's use of the intangible property. *See* Rev. Rul. 57–40, 1957–1 C.B. 266 (transfer of patent with all substantial rights considered a sale regardless of whether consideration is for productivity, use or disposition of the property transferred); *see also E.I. du Pont de Nemours & Co.* v. *United States,* 432 F.2d 1052 (3d Cir. 1970). Therefore, the proposed regulations would not modify the facts of Example 1.

One commenter requested an additional example illustrating that the sale of a copyrighted article by a domestic corporation, whether through an electronic or physical medium, should not be considered a sale of intangible property or other excluded property, even if the domestic corporation uses the software in its own business. The commenter also requested an example illustrating that a ''lease'' of a copyrighted article, where the term of the arrangement to the customer is of a limited duration, would not be excluded from DEI because there has been no ''sale'' of property. To provide the additional clarity requested in the software context, the proposed regulations would include the two requested examples. *See* proposed § 1.250(b)–1(h)(4)(ii) (Example 2). The analysis in the first requested example is also illustrated by Example 4 (sale of airplanes) in proposed § 1.250(b)–1(h)(4)(iv).

A comment also requested an additional example illustrating that income or gain from a transfer of a copy of a computer program with a limited duration license is not excluded from DEI. Because the comment relates to the characterization of digital content transactions under § 1.861–18, it is outside the scope of the proposed regulations. Accordingly, the proposed regulations would not include the requested example.

III. Clarification That FDDEI Is a Subset of DEI

As a result of the OBBBA amendments to remove the DTIR and DII components from the calculation and replace ''foreign-derived intangible income'' with ''foreign-derived deduction eligible income,'' the foreign-derived ratio in § 1.250(b)–1(c)(13) is no longer needed to compute the deduction under section 250(a)(1). The OBBBA amendments, however, did not modify the definition of FDDEI, including the treatment of FDDEI as a subset of DEI. *See* section 250(b)(1) (''The term 'foreign-derived deduction eligible income' means . . . any deduction eligible income which is derived in connection with'' certain property and services). Accordingly, the proposed regulations would clarify that FDDEI continues to be limited by the amount of DEI. *See* proposed § 1.250(b)–1(c)(12).

IV. Applicability Dates and Reliance

The Treasury Department and the IRS expect to finalize these proposed regulations by January 4, 2027. Pursuant to the authority conferred by section 7805(b)(2), the proposed regulations are generally proposed to apply to sales or other dispositions (as defined in proposed § 1.250(b)–1(h)(2)(iii)) occurring after June 16, 2025. *See* proposed § 1.250–1(b). However, the proposed amendment to § 1.250(b)–1(c)(12) (clarifying FDDEI is a subset of DEI) would apply to taxable years beginning after December 31, 2025. Taxpayers may rely on the proposed regulations for sales or other dispositions (as defined in proposed 1.250(b)–1(h)(2)(iii)) before the date final regulations are published in the **Federal Register**, provided the taxpayer and its related parties (within the meaning of § 1.250(b)–1(c)(19)) follow the proposed regulations in their entirety and in a consistent manner.

Special Analyses

I. Regulatory Planning and Review—Economic Analysis

Executive Orders 12866 and 13563 direct agencies to assess costs and benefits of available regulatory alternatives and, if regulation is necessary, to select regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety effects, distributive impacts, and equity). Executive Order 13563 emphasizes the importance of quantifying both costs and benefits, reducing costs, harmonizing rules, and promoting flexibility.

The proposed regulations have been designated by the Office of Management and Budget's (OMB's) Office of Information and Regulatory Affairs (OIRA) as subject to review under Executive Order 12866 pursuant to the Memorandum of Agreement (MOA, July 4, 2025) between the Treasury Department and the Office of Management and Budget regarding review of tax regulations. OIRA has determined that the proposed rulemaking is significant and subject to review under section 3(f) of Executive Order 12866 and section 1(c) of the Memorandum of Agreement. Accordingly, the proposed regulations have been reviewed by OMB. This rule is expected to be an Executive Order 14192 regulatory action.

A. Background

The Tax Cuts and Jobs Act of 2017 (TCJA), Public Law 115–97, fundamentally revised the U.S. international tax system, including through the enactment of the global intangible low-taxed income (GILTI) regime under section 951A and the FDII deduction under section 250. Congress enacted these provisions in part to reduce incentives for U.S. multinational enterprises to locate or move intangible income abroad, including in low- or zero-tax foreign jurisdictions, and to neutralize tax considerations in choosing whether to serve foreign markets through U.S.-based operations or through CFCs.[2] Section 250 allows a

[2] *See* Senate Committee on the Budget, 115th Cong., *Reconciliation Recommendations Pursuant to H. Con. Res. 71 (available at https://www.govinfo.gov/content/pkg/CPRT-115SPRT27718/pdf/CPRT-115SPRT27718.pdf*). The Continued

domestic corporation a deduction equal to a percentage of its FDDEI, which generally consists of DEI derived from property sold to foreign persons for foreign use, and services provided to persons, or with respect to property, located outside the United States. The section 250 deduction lowers the effective corporate tax rate on qualifying income.[3]

As enacted in 2017, section 250(b)(3)(A)(i) excluded six categories of income from DEI, including Subpart F inclusions, GILTI, financial services income, dividends from controlled foreign corporations, domestic oil and gas extraction income, and foreign branch income. Until the 2025 enactment of section 250(b)(3)(A)(i)(VII), section 250 did not generally exclude income or gain derived from sales or other dispositions of intangible property or depreciable, amortizable, or depletable business property from DEI. As a result, taxpayers could claim FDII benefits with respect to certain dispositions of such property. This treatment could undermine the policy objectives of the TCJA's changes to the U.S. international tax system, which were principally directed toward curbing erosion of the U.S. tax base through the offshoring of property that generates ongoing foreign-market intangible income.

Section 70322(a)(1) of the OBBBA amended section 250(b)(3)(A)(i) to add a seventh category of income excluded from DEI. Specifically, section 250(b)(3)(A)(i)(VII) excludes from DEI, except as otherwise provided by the Secretary, income and gain from the sale or other disposition of: (i) intangible property within the meaning of section 367(d)(4);[4] and (ii) other property of a type that is subject to depreciation, amortization, or depletion by the seller (excluded property sales income). The exclusion addresses a narrow category of transactions where taxpayers could obtain a tax benefit for offshoring their intangible property and business operations.

Section 70322(a)(2) of the OBBBA makes a conforming change to the section 250 definition of ''sale.'' This change prevents the broad section 250 definition of ''sale,'' which generally includes leases, licenses, exchanges, and other dispositions, from applying to the new income exclusion in section 250(b)(3)(A)(i)(VII). As a result, a sale or other disposition for purposes of the income exclusion in section 250(b)(3)(A)(i)(VII) does not include leases and licenses.

Section 70322(a)(3) of the OBBBA provides that these statutory amendments apply to sales or other dispositions occurring after June 16, 2025. In addition to the Secretary's express regulatory authority to determine the scope of the exclusion in section 250(b)(3)(A)(i)(VII), the statute grants express regulatory authority to prescribe regulations necessary or appropriate to carry out the provisions of section 250.

On December 4, 2025, the Treasury Department and the IRS issued Notice 2025–78 announcing the intent to issue proposed regulations under section 250.[5] The notice provided preliminary guidance addressing the scope of excluded property sales income, and included several definitions and examples illustrating the application of the rules.

B. Need for Proposed Regulations

The proposed regulations provide guidance to taxpayers in applying section 250(b)(3)(A)(i)(VII) to the determination of the type and amount of income eligible for the section 250 deduction. The Treasury Department and the IRS are of the view that regulatory guidance would provide administrable standards, reduce uncertainty, improve consistency among similarly situated taxpayers, and prevent inappropriate claims of FDDEI with respect to income from the disposition of intangible property and business assets that Congress excluded from DEI.

C. The Proposed Regulations

Consistent with Notice 2025–78, the proposed regulations provide rules to determine when income and gain from the disposition of property would be treated as excluded property sales income, including any income and gain derived from the sale or other disposition of (i) intangible property, or (ii) property that in the hands of a seller: (a) is or has been treated as property that is of a character subject to the allowance for depreciation under section 167, (b) is or has been subject to an allowance for amortization, or (c) is or has been subject to the allowance for depletion under section 611. In particular, as discussed in the Explanation of Provisions section of this preamble, the proposed regulations would (i) provide definitions consistent with existing statutory and regulatory provisions; (ii) pursuant to the authority granted to the Secretary of the Treasury in section 250(b)(3)(A)(i)(VII) and section 250(c), clarify that income and gain from the sale of copyrighted articles and property that has always been held as inventory by the seller would not be treated as excluded property sales income, with the latter subject to a related party anti-abuse rule; and (iii) modify certain regulations under section 250 to reflect amendments under the OBBBA and clarify that FDDEI remains a subset of DEI.

D. Baseline

The Treasury Department and the IRS have assessed the benefits and costs of the proposed regulations relative to a no-action baseline reflecting anticipated Federal income tax-related behavior in the absence of these proposed regulations.

E. Economic Effects of the Proposed Regulations

1. Affected Taxpayers

The broadest measure of taxpayers potentially affected by the proposed regulations includes all taxpayers that claim an FDII deduction under section 250 on Form 1120, ''U.S. Corporation Income Tax Return'' (or any successor form). The Treasury Department and the IRS have determined that between 2018 and 2023, the number of Form 1120 filers that had claimed an FDII deduction has increased from 4,000 to 6,900. The estimated number of FDDEI claimants in 2026 is expected to range from 7,000 to 7,500. However, only a subset of those taxpayers is expected to be affected by the statutory change, and an even smaller subset is expected to be materially affected by the proposed

FDII provision ''Reasons for change'' state: ''[O]ffering similar . . . rates for intangible income derived from serving foreign markets, whether through U.S.-based operations or through CFCs, reduces or eliminates the tax incentive to locate or move intangible income abroad, thereby limiting one margin where the Code distorts business investment decisions.''

[3] Under the original TCJA version of section 250, the 37.5 percent FDII deduction rate reduced the effective U.S. corporate tax rate on FDII from 21 percent to 13.125 percent. Under current law, the 33.34 percent FDDEI deduction rate reduces the effective U.S. corporate tax rate on FDDEI from 21 percent to 14 percent.

[4] Section 367(d) generally applies to certain outbound transfers of intangible property by a U.S. person to a foreign corporation in an otherwise nonrecognition transaction. Section 367(d) treats the U.S. transferor as having transferred the intangible property in exchange for deemed payments contingent on the productivity, use, or disposition of the property, which are generally included in income over the useful life of the transferred intangible property. Section 250(b)(3)(A)(i)(VII) expressly includes transactions subject to section 367(d), ensuring that income arising from such outbound intangible property transfers is within the scope of the DEI exclusion.

[5] *See* 2025–52 I.R.B. 874 at *https://www.regulations.gov/document/IRS-2025-0268-0001.*

regulations relative to the statutory baseline.

TABLE 1—APPROXIMATE NUMBER OF TAXPAYERS CLAIMING AN FDII DEDUCTION, BY YEAR [6]

Tax year	Total number of taxpayers claiming FDII deduction
2018	4,000
2019	4,900
2020	4,700
2021	5,500
2022	6,900
2023	6,900

The statutory amendment excludes certain categories of sales income from DEI, potentially affecting a subset of all FDII claimants, *i.e.,* taxpayers that recognize income or gain from the sale or other disposition of intangible property, or depreciable, amortizable, or depletable property used in a trade or business.

Available data do not allow the Treasury Department and the IRS to identify the exact transactions or product types that contribute to each taxpayer's FDII deduction. However, Form 8993 reports gross FDDEI by three income categories: sales of general property, sales of intangible property,[7] and services. Table 2 uses these data to present, by industry, the number of taxpayers claiming an FDII deduction in tax year 2021 and their aggregate gross FDDEI by income category.

Gross FDDEI is narrowed further by taking into account allocated and apportioned deductions to get to net FDDEI, the income base on which the section 250 deduction is computed. Accordingly, gross FDDEI exceeds net FDDEI, a portion of which becomes the final section 250 deduction amount. In tax year 2021, taxpayers reported $912 billion of aggregate gross FDDEI, as shown in Table 2, compared to $112 billion of aggregate section 250 deductions for FDII.[8]

With these limitations in mind, the gross FDDEI data nevertheless provide useful information about the industries in which affected transactions are more likely to arise. Firms in certain industries are more likely to be affected by the statute because they generate income from intangible property or use production assets that are depreciable, amortizable, and depletable. Firms in the Information industry (*e.g.,* publishers and software producers) are more likely to engage in transactions involving intangible property. In 2021, 9 percent of all firms claiming a FDII deduction (about 500 by count) are characterized as such, and they account for 55 percent of the gross FDDEI derived from all sales of intangible property. Similarly, firms in the Manufacturing industry may be more likely to use and sell assets that are depreciable, amortizable and depletable.[9] In 2021, 31 percent of all firms claiming a FDII deduction (about 1,710 by count) are characterized as manufacturing firms, and they account for 46 percent of the gross FDDEI derived from all sales of general property.

TABLE 2—TAXPAYERS CLAIMING A FDII DEDUCTION IN TAX YEAR 2021, BY INDUSTRY [10]

[Panel A—taxpayer counts and gross FDDEI amounts]

Industry	Count	Total gross FDDEI ($B)	Gross FDDEI by type ($B)		
			General property	Intangible property	Services
Commodities and Trade	2,080	$257	$167	$30	$60
Manufacturing	1,710	343	189	76	77
Services	1,020	36	4	12	20
Information	500	248	45	150	53
Finance and Holding Companies	190	27	3	5	19
Total	5,500	912	409	273	230

PANEL B—SHARES OF TOTAL

Industry	Count (%)	Total gross FDDEI (%)	Gross FDDEI by type		
			General property (%)	Intangible property (%)	Services (%)
Commodities and Trade	38	28	41	11	26
Manufacturing	31	38	46	28	34
Services	19	4	1	4	9
Information	9	27	11	55	23
Finance and Holding Companies	3	3	1	2	8

[6] Taxpayer counts are rounded to the nearest hundred, and based on tax filings of Forms 1120, 8993, and 1118.

[7] Sales of intangible property, as reported in Form 8993, includes income from leases and licenses, which income is not subject to the exclusion in section 250(b)(3)(A)(i)(VII).

[8] *See https://www.irs.gov/pub/irs-soi/21it02sec250ind.xlsx.*

[9] For example, a domestic corporation that uses machinery in its manufacturing business may claim depreciation deductions with respect to that machinery. Income or gain from the later sale or other disposition of that machinery may be excluded from DEI under section 250(b)(3)(A)(i)(VII)(bb).

[10] Taxpayer counts are rounded to the nearest ten and based on tax filings of Forms 8993 in tax year 2021. Industries are defined at the 2-digit NAICS-level and grouped as follows: Commodities and Trade (11, 21, 22, 42, 44, 45, 46, 48, 49, 56); Manufacturing (23, 31, 32, 33); Services (54, 61, 62, 71, 72, 81); Information (51); and Finance and Holding Companies (52, 53, 55). Total gross FDDEI amounts are aggregated using Form 8993, Part II, line 11.

The population materially affected by the proposed regulations would be narrower. The proposed regulations primarily affect taxpayers whose transactions raise interpretive or characterization issues addressed in the regulations. The subset of taxpayers materially affected by the proposed regulations, relative to the statutory baseline, likely includes taxpayers with transactions involving copyrighted articles and taxpayers disposing of mixed-use property.

While the Treasury Department and the IRS do not have the data or models required to precisely estimate the number of taxpayers affected by the proposed regulations, they expect the proposed regulations to primarily affect taxpayers that currently claim FDII deductions on income and gain derived from significant asset disposition transactions. The proposed regulations are not expected to materially affect corporations that do not claim FDII deductions; do not engage in significant sales or other dispositions of property of a type that is subject to depreciation, amortization, or depletion (other excluded property); and do not engage in transactions involving the interpretive issues addressed by the proposed regulations.

2. Economic Effects

The proposed regulations are expected to provide clarity and certainty regarding the treatment of income and gains from sales of copyrighted articles (including software), and inventory. Taken together, the proposed regulations would reduce inconsistent treatment among similarly situated taxpayers, legal disputes arising from ambiguous reading of the statute, compliance costs associated with uncertain tax positions, and incentives to structure transactions to exploit ambiguity.

a. Clarify Meanings of Relevant Terms

The proposed regulations clarify two sets of terms that determine the scope of excluded property sales income under section 250(b)(3)(A)(i)(VII). First, the proposed regulations clarify that, for purposes of this exclusion, a ''sale or other disposition'' is determined under general tax principles and does not include a transaction characterized as a lease or license. Second, the proposed regulations define other excluded property by reference to existing depreciation, amortization, depletion, and inventory concepts, rather than creating a new section 250-specific property classification regime.

i. Clarify the Meaning of ''Sale''

The statute amends the definition of ''sale'' in section 250 to provide that the broad section 250 definition of sale, which includes any lease, license, exchange or other disposition, does not apply for purposes of the income exclusion in section 250(b)(3)(A)(i)(VII). In other words, Congress indicated that the income exclusion in section 250(b)(3)(A)(i)(VII) should apply only to transactions that are treated as sales or other dispositions (including deemed sales and dispositions), and not to other categories of transactions, such as those characterized as leases or licenses.

Consistent with Notice 2025–78, the proposed regulations would further clarify this distinction and provide that a sale or other disposition for purposes of section 250(b)(3)(A)(i)(VII) is determined under general Federal income tax principles and includes deemed sales, deemed dispositions, and transactions subject to section 367(d). A transaction characterized as a lease or license under general tax principles would not be treated as a sale or other disposition, and income from such transactions would therefore not be excluded from DEI under section 250(b)(3)(A)(i)(VII), although the income would remain subject to the other requirements and limitations of section 250.

This clarification is expected to reduce uncertainty for taxpayers that earn income from software, technology, intellectual property, equipment leasing, and other arrangements that may involve both sale and license or lease features. It provides a clear distinction between disposition income, which Congress excluded from DEI, and income from lease or license arrangements, which may remain in DEI if it otherwise qualifies. This distinction is particularly relevant for owners of intangible property because taxpayers may exploit intellectual property through several different transaction forms, including outright sales, transfers of copyright rights, licenses, and transactions that are treated as services or cloud transactions under existing rules. Some of these transaction forms may generate the type of foreign-market income that Congress intended to encourage through the section 250 deduction, while others may involve dispositions that facilitate the offshoring of intellectual property or business assets and are therefore excluded from DEI under section 250(b)(3)(A)(i)(VII).

The proposed approach allows taxpayers to apply existing general Federal income tax principles to determine whether a transaction is a sale or other disposition for purposes of section 250(b)(3)(A)(i)(VII). An alternative framework would be to create a separate section 250-specific characterization regime, including rules identifying particular categories of transactions that would or would not qualify as sales or other dispositions. The Treasury Department and the IRS do not view this as a sound alternative. Such a regime would introduce special classification rules for a narrow purpose, increasing compliance burdens, administrative complexity, and disputes over economically similar transactions. It also would need to be coordinated with OBBBA's conforming amendment to the section 250 definition of sale, which prevents the broad, general section 250 definition of sale from applying for purposes of section 250(b)(3)(A)(i)(VII). By relying instead on general tax principles, the proposed regulations reduce the need for taxpayers to characterize the same transaction differently for section 250 than for other Federal income tax purposes.

Accordingly, under the proposed regulations, excluded property sales income does not include income or gain from the lease or license of property. This approach avoids collapsing the statutory distinction between a disposition of property and an ordinary lease or license arrangement. For example, treating license income as excluded sales income could cause a taxpayer earning royalties from a license of intangible property to be treated the same as a taxpayer that sells the underlying intangible property, even though the legal and economic consequences of those transactions may differ materially. This could create distortions among transaction forms and overextend the exclusion beyond income and gain from sales or other dispositions of specified property.

ii. Provide Definitions Consistent With Existing Statutory and Regulatory Provisions

The proposed regulations generally define the key categories of other excluded property by reference to existing statutory and regulatory concepts. Other excluded property would include property that is not intangible property and that, in the hands of the seller, is or has been treated as property of a character subject to the allowance for depreciation under section 167, is or has been subject to an allowance for amortization, or is or has been subject to the allowance for depletion under section 611. Therefore, property that has always been held as inventory by the seller would not be other excluded property because such property has not been ''of a character'' subject to the allowance for depreciation. The proposed regulations also coordinate this definition with the existing definitions of intangible property and copyrighted articles.

Using existing statutory and regulatory concepts is expected to reduce administrative burden. Taxpayers generally already classify property for purposes of depreciation, amortization, depletion, inventory accounting, and gain characterization. By relying on familiar concepts, the proposed regulations reduce the need for taxpayers to apply a new property classification system solely for section 250. This approach also promotes consistent treatment between section 250 and other Federal income tax provisions that already determine whether property is depreciable, amortizable, depletable, inventory, or intangible property.

The direct definitional approach is expected to be particularly helpful for taxpayers with mixed categories of property, including manufacturers, software companies, natural resource businesses, and taxpayers that hold both business-use assets and inventory. These taxpayers may sell property that is depreciable in one context but inventory in another. The proposed regulations would provide a more targeted rule by focusing on the character of the property in the hands of the seller and by distinguishing ordinary-course inventory sales from dispositions of the seller's own depreciable, amortizable, or depletable business assets.

The proposed definitions are also expected to reduce disputes over borderline property categories. Without regulatory clarification, taxpayers could take inconsistent positions regarding whether section 250(b)(3)(A)(i)(VII)(bb) applies to fully depreciated property, amortizable property, depletable property, software, inventory, or property that changes use before sale. The proposed regulations would reduce these uncertainties by providing definitions tied to established Code provisions and by adding targeted rules for related-party transfers and reclassified property.

b. Clarify Intangible Property Does Not Include Copyrighted Articles

The proposed regulations would clarify that, for purposes of section 250(b)(3)(A)(i)(VII)(aa), intangible property does not include a copyrighted article. This rule distinguishes between a disposition of copyright rights, which may be excluded from DEI as a sale or other disposition of intangible property, and a sale of an article embodying copyrighted content, which is not excluded from DEI solely because the article is protected by copyright. A copyrighted article may nevertheless be excluded from DEI if the separate exclusion for property of a type subject to depreciation, amortization, or depletion applies.

Ideally, the Treasury Department and the IRS would estimate the economic effect of this clarification using tax return data that directly identify FDDEI attributable to sales of copyrighted articles. Available tax return data do not separately identify those transactions. The Treasury Department and the IRS therefore considered industry information as a proxy for identifying taxpayers more likely to engage in affected transactions, given that certain businesses are more likely than others to sell copyrighted articles. This proxy is necessarily imperfect: taxpayers within an industry may earn income from multiple activities, and only some of those activities may involve sales of copyrighted articles. Nonetheless, industry information can help assess the size of the relevant taxpayer population.

Taxpayers in the Information industry are expected to be among the taxpayers most likely to be affected because they are more likely than taxpayers in other industries to sell software, digital media, publications, or other products embodying copyrighted content. As noted above, in 2021 approximately 500 taxpayers claiming an FDII deduction, or 9 percent of the total, were in the Information industry. Total gross FDDEI reported by FDII claimants in the information industry totaled $248 billion, $150 billion of which was FDDEI from sales of intangible property, which likely includes sales of copyrighted software and other digital content.

The principal economic effect of this rule is expected to be increased certainty. Absent clarification, taxpayers could interpret the statutory reference to section 367(d)(4) intangible property to include copyrighted articles merely because the articles embody copyrighted content. That interpretation could create uncertainty for taxpayers that sell software copies, publications, or other copyrighted products to foreign customers. The proposed regulations would reduce that uncertainty by applying the existing Federal income tax distinction between copyright rights and copyrighted articles.

The clarification is also expected to reduce distortions across transaction forms. Producers of software and digital-content products may earn revenue through multiple formats, including sales of copies, licenses, cloud transactions, services, and transfers of copyright rights. Treating sales of copyrighted articles as excluded property sales income solely because the articles embody copyrightable content could disadvantage sales of copyrighted articles relative to other transaction forms, including certain licenses, cloud transactions, and services. That result would not align with the statutory exclusion, which is directed at dispositions of intangible property rather than ordinary-course sales of copyrighted articles. The proposed regulations reduce this risk by preserving potential DEI treatment for qualifying foreign sales of copyrighted articles while continuing to exclude dispositions of the underlying copyright or other section 367(d)(4) intangible property.

Relative to the baseline, the proposed rule is expected to reduce inconsistent treatment among similarly situated taxpayers, reduce disputes over the characterization of software and digital-content transactions, and reduce incentives to structure transactions based on uncertainty over whether a copyrighted article is treated as intangible property. Any affected amount of income would depend on the volume of foreign sales of copyrighted articles, the extent to which those sales otherwise satisfy the FDDEI requirements, and the extent to which taxpayers sell or otherwise dispose of copyright rights rather than copyrighted articles.

c. Clarify Other Excluded Property Does Not Include Inventory

Section 250(b)(3)(A)(i)(VII)(bb), as added by OBBBA, excludes from DEI, except as otherwise provided by the Secretary, income and gain from the sale or other disposition of other excluded property. The proposed regulations would clarify that other excluded property means property that is or has been of a character subject to the allowance for depreciation, or is or has been subject to an allowance for amortization or depletion. Therefore, other excluded property would not include property that has always been held as inventory by the seller and has not been ''of a character'' subject to the allowance for depreciation. This inventory carveout is particularly relevant for manufacturers and other producers that use depreciable assets as means of production and sell products that may themselves be depreciable in the hands of the purchaser.

Without this clarification, taxpayers could interpret section

250(b)(3)(A)(i)(VII)(bb) to exclude income and gain from sales of ordinary-course inventory from DEI, merely because the property sold is of a kind that could be depreciated, amortized, or depleted by the seller. For example, a manufacturer may sell aircraft, machinery, equipment, vehicles, software copies, or other business-use products to foreign customers. Although such property may serve as means of production and therefore be of a type subject to depreciation, amortization, and depletion in the hands of the seller, income from the seller's ordinary-course inventory sales is the type of foreign-market sales income that section 250 is generally designed to identify as potentially eligible for FDDEI treatment, provided the other statutory and regulatory requirements are satisfied.

The Treasury Department and the IRS expect this clarification to reduce uncertainty for taxpayers engaged in manufacturing, distribution, and other businesses that sell inventory or similar property for foreign use. In particular, this clarification avoids uncertainty in the application of the statutory exclusion. If inventory were treated as other excluded property solely because the property is of a type that could be depreciated, amortized, or depleted by the seller, then the exclusion could apply broadly to ordinary foreign-market sales of manufactured products. Such a broad exclusion could substantially narrow the category of income that would otherwise be considered as FDDEI, which would dampen the intended incentive for domestic corporations to serve foreign markets from the United States. The asset-by-asset approach adopted in the proposed regulation instead distinguishes between a seller's disposition of its own business assets and the seller's ordinary-course sales of inventory, achieving the goal of discouraging dispositions of production assets that Congress determined should not give rise to FDDEI, while preserving the treatment of ordinary-course inventory sales for foreign use.

The proposed regulations also include a related-party anti-abuse rule intended to prevent taxpayers from using the inventory clarification to avoid excluded property sales income treatment through related-party transactions. The inventory clarification is intended to preserve DEI treatment for legitimate ordinary-course sales of inventory to foreign customers, not to permit taxpayers to avoid the statutory exclusion by moving depreciable, amortizable, or depletable property through related parties or intermediary entities before sale.

Under this rule, property generally retains its other excluded property character when it is transferred within a modified affiliated group in a basis-carryover transaction, if the transfer has a principal purpose of avoiding the exclusion for other excluded property. Thus, a taxpayer could not avoid the income exclusion set forth in section 250(b)(3)(A)(i)(VII)(bb) merely by transferring depreciable, amortizable, or depletable property to a related party that holds the property as inventory before selling it to a foreign customer. This rule serves as a backstop to the inventory clarification, so that the clarification protects ordinary-course inventory sales without allowing taxpayers to convert excluded property sales income into FDDEI through related-party reclassification or similar transactions. The related party anti-abuse rule is expected to reduce incentives for taxpayers to transfer depreciable property through nonrecognition or basis-carryover transactions, reclassify other excluded property through intermediary entities, or otherwise structure related-party transactions to convert excluded property sales income into FDDEI.

Together, these rules are expected to improve consistency between the economic substance of a transaction and its treatment for DEI purposes. They may reduce tax planning activity associated with asset characterization and related-party transfers, reduce disputes over whether inventory treatment should be respected for DEI purposes, and reduce the likelihood that similarly situated taxpayers will take inconsistent positions. The principal compliance effect is expected to be the need for taxpayers engaging in related-party transfers, basis-carryover transactions, or inventory reclassification transactions to evaluate whether the rules apply and maintain records supporting their treatment.

The economic effects of not treating ordinary course inventory sales as excluded property sales income are expected to be concentrated in industries with significant foreign sales of tangible products or software and digital products, including manufacturing, transportation equipment, industrial machinery, electronics, pharmaceuticals, and software. In 2021, 1,710 taxpayers from the Manufacturing industry (broadly defined) claimed a FDII deduction, representing 31 percent of all FDII deduction claimants. Total gross FDDEI reported by FDII claimants in the Manufacturing industry totaled $343 billion, $189 billion of which was FDDEI from sales of general property, which likely includes sales of inventory or productive assets.

d. Summary

Based on the available models and data, the Treasury Department and the IRS estimate that the economic costs and benefits of the proposed regulations would be small. The Treasury Department and the IRS invite public comments and additional data on the economic effects that would result from these proposed regulations.

II. Paperwork Reduction Act

The Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3520) (PRA) generally requires that a Federal agency obtain the approval of the Office of Management and Budget before collecting information from the public, whether such collection of information is mandatory, voluntary, or required to obtain or retain a benefit. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid control number assigned by the Office of Management and Budget.

The collections of information in these proposed regulations include recordkeeping requirements that are necessary for domestic corporations to properly exclude certain income and gain from the sale or disposition of property from DEI. These collections will be used by IRS for tax compliance purposes.

These proposed regulations contain rules to determine whether income and gain from the sale or disposition of certain property is excluded from DEI. Taxpayers should maintain records sufficient to substantiate compliance with the exclusion rules. These recordkeeping requirements are considered general tax records under § 1.6001–1(e). For PRA purposes, general tax records are already approved by OMB under 1545–0123 for business filers.

III. Regulatory Flexibility Act

When an agency issues a rulemaking proposal, the Regulatory Flexibility Act (5 U.S.C. chapter 6) (RFA) requires the agency to prepare and make available for public comment an initial regulatory flexibility analysis that will describe the impact of the proposed rule on small entities. *See* 5 U.S.C. 603(a). Section 605 of the RFA provides an exception to this requirement if the agency certifies that the proposed rulemaking will not have a substantial economic impact on a substantial number of small entities. A small entity is defined as a small business, small nonprofit organization, or small governmental jurisdiction. *See* U.S.C. 601(3) through (6).

It is hereby certified that the proposed regulations will not have a significant economic impact on a substantial number of small entities. These regulations affect domestic corporations with foreign-derived deduction eligible income. Although data are not readily available, the Treasury Department and the IRS have determined that the regulations may affect a substantial number of small entities. The Treasury Department and the IRS do not expect that the proposed regulations will have a significant economic impact on affected small entities within the meaning of sections 601(3) through (6) of the RFA. The proposed regulations provide guidance on certain excluded property sales income from deduction eligible income under section 250 but do not change the economic impact of the existing regulations or impose any new costs on small entities. Notwithstanding this certification, the Treasury Department and the IRS welcome comments from the public about the impact of these regulations on small entities.

IV. Submission to the Small Business Administration

Pursuant to section 7805(f) of the Code, the proposed regulations have been submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small businesses.

V. Unfunded Mandates Reform Act

Section 202 of the Unfunded Mandates Reform Act of 1995 requires that agencies assess anticipated costs and benefits and take certain other actions before issuing a final rule that includes any Federal mandate that may result in expenditures in any one year by a State, local, or Tribal government, in the aggregate, or by the private sector, of $100 million in 1995 dollars, updated annually for inflation. In 2026, that threshold is approximately $214 million. The proposed regulations do not include any Federal mandate that may result in expenditures by State, local, or Tribal governments, or by the private sector in excess of that threshold.

VI. Executive Order 13132: Federalism

Executive Order 13132 (Federalism) prohibits an agency from publishing any rule that has federalism implications if the rule either imposes substantial, direct compliance costs on State and local governments, and is not required by statute, or preempts State law, unless the agency meets the consultation and funding requirements of section 6 of the Executive Order. The proposed regulations do not have federalism implications, do not impose substantial direct compliance costs on State and local governments, and do not preempt State law within the meaning of the Executive Order.

Comments and Requests for Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any written or electronic comments that are submitted timely to the IRS as prescribed in this preamble under the **ADDRESSES** heading. Comments are requested on all aspects of the proposed regulations.

All comments will be available at *http://www.regulations.gov* or upon request. Pursuant to the Administrative Procedure Act at 5 U.S.C. 553(b)(4), a plain language summary of the proposed rule will also be available at *http://www.regulations.gov.* A public hearing will be scheduled if requested in writing by any person that timely submits written comments. Requests for a public hearing are encouraged to be made electronically. If a public hearing is scheduled, notice of the date, time, and place for the public hearing will be published in the **Federal Register**.

Statement of Availability of IRS Documents

For copies of recently issued Revenue Procedures, Revenue Rulings, Notices, and other guidance published in the Internal Revenue Bulletin, please visit the IRS website at *https://www.irs.gov.*

Drafting Information

The principal authors of these regulations are Stefan A. Pruessmann and Michelle L. Ng of the Office of Associate Chief Counsel (International). However, other personnel from the Treasury Department and the IRS participated in their development.

List of Subjects in 26 CFR Part 1

Income Taxes, Reporting and recordkeeping requirements.

Proposed Amendments to the Regulations

Accordingly, the Treasury Department and the IRS propose to amend 26 CFR part 1 as follows:

PART 1—INCOME TAXES

■ **Paragraph 1.** The authority citation for part 1 is amended by adding an entry in numerical order for § 1.250(b)–1(h) to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

* * * * *

Section 1.250(b)–1(h) also issued under 26 U.S.C. 250(b)(3)(A)(i)(VII).

* * * * *

■ **Par. 2.** Section 1.250–0 is amended by adding an entry for § 1.250(b)–1(h) to read as follows:

§ 1.250–0 Table of contents.

* * * * *

§ 1.250(b)–1 Computation of foreign-derived intangible income (FDII).

* * * * *

(h) Excluded property sales income.
(1) Scope.
(2) Definitions.
(i) Excluded seller.
(ii) Other excluded property.
(iii) Sale or other disposition.
(3) Related party anti-abuse rule.
(i) In general.
(ii) Modified affiliated group.
(4) Examples.

* * * * *

■ **Par. 3.** Section 1.250–1 is amended by adding three new sentences at the end of paragraph (b) to read as follows:

§ 1.250–1 Introduction.

* * * * *

(b) * * * Sections 1.250(b)–1(c)(15)(vii), 1.250(b)–1(h), and the last two sentences in § 1.250(b)–3(b)(16) apply to sales or other dispositions (as defined in § 1.250(b)–1(h)(2)(iii)) occurring after June 16, 2025. Section 1.250(b)–1(c)(12) applies to taxable years beginning after December 31, 2025. For rules that apply to taxable years beginning on or before December 31, 2025, see § 1.250(b)–1(c)(12) as contained in 26 CFR part 1 revised as of April 1, 2026.

■ **Par. 4.** Section 1.250(b)–1 is amended by:

■ 1. Adding a sentence at the end of paragraph (a);
■ 2. Revising paragraph (c)(12);
■ 3. Removing the second ''and'' from paragraph (c)(15)(v);
■ 4. Removing the period at the end of paragraph (c)(15)(vi) and adding the language ''; and'' in its place;
■ 5. Adding new paragraph (c)(15)(vii); and
■ 6. Adding new paragraph (h).

The additions and revision read as follows:

§ 1.250(b)–1 Computation of foreign-derived intangible income (FDII).

(a) * * * Paragraph (h) of this section provides rules regarding excluded property sales income.

* * * * *

(c) * * *

(12) The term *foreign-derived deduction eligible income* or *FDDEI* means, with respect to a domestic

corporation for a taxable year, the excess (if any, and not to exceed DEI) of the corporation's gross FDDEI for the year, over the deductions properly allocable to gross FDDEI for the year, as determined under paragraph (d)(2) of this section.

* * * * *

(15) * * *

(vii) Excluded property sales income (as defined in paragraph (h) of this section).

* * * * *

(h) *Excluded property sales income.*—(1) *Scope.* This paragraph (h) provides rules for determining ''excluded property sales income,'' which consists of certain income and gain excluded from DEI under section 250(b)(3)(A)(i)(VII) and paragraph (c)(15)(vii) of this section. Except as provided in paragraph (h)(3) of this section, the term *excluded property sales income* means any income and gain derived from the sale or other disposition (as defined in paragraph (h)(2)(iii) of this section) of the following—

(i) Intangible property (as defined in § 1.250(b)–3(b)(11)); or

(ii) Other excluded property (as defined in paragraph (h)(2)(ii) of this section).

(2) *Definitions.* This paragraph (h)(2) provides definitions that apply for purposes of this paragraph (h).

(i) *Excluded seller.* The term *excluded seller* means the domestic corporation or partnership (whether domestic or foreign) that sells or otherwise disposes of intangible property or other excluded property.

(ii) *Other excluded property.* The term *other excluded property* means property that is not intangible property under paragraph (h)(1)(i) of this section and that, in the hands of the excluded seller—

(A) Is or has been property that is of a character subject to the allowance for depreciation under section 167;

(B) Is or has been subject to an allowance for amortization that is not described in paragraph (h)(2)(ii)(A) of this section; or

(C) Is or has been subject to the allowance for depletion under section 611.

(iii) *Sale or other disposition.* The term *sale or other disposition* means a sale or other disposition as determined under general Federal income tax principles, including deemed sales, other deemed dispositions, and transactions subject to section 367(d). A deemed sale or other deemed disposition includes any transaction or election that is treated as a sale or other disposition of property for Federal income tax purposes. A sale or other disposition does not include a transaction that would be characterized under general tax principles as a lease or license. *See* paragraphs (h)(4)(i)(C) and (ii)(C) of this section (*Examples 1 and 2*). For purposes of §§ 1.250(b)–3 through 1.250(b)–6, see the definition of ''sale'' under § 1.250(b)–3(b)(16).

(3) *Related-party anti-abuse rule.* (i) *In general.* Property that was other excluded property in the hands of a member of the excluded seller's modified affiliated group is treated as other excluded property with respect to the excluded seller, if the excluded seller acquires that property—

(A) In a transaction (or series of transactions) in which the basis of the property is determined, in whole or in part, by reference to the basis in the hands of the member in whose hands the property was other excluded property; and

(B) With a principal purpose of avoiding the application of section 250(b)(3)(A)(i)(VII)(bb).

(ii) *Modified affiliated group.* Solely for purposes of this paragraph (h)(3), the term *modified affiliated group* has the meaning given in paragraph (c)(17) of this section but without the substitution of ''more than 50 percent'' for ''at least 80 percent'' each place it appears, and by substituting ''at least 80 percent'' for ''more than 50 percent'' for purposes of determining control within the meaning of section 954(d)(3).

(4) *Examples.* The following examples illustrate the application of this paragraph (h).

(i) *Example 1: Sale of intangible property*—(A) *Facts.* DC, a domestic corporation, owns the copyright to a computer program, Program X. DC enters into an agreement with FP, an unrelated foreign person, under which DC grants FP an exclusive irrevocable license for the remaining term of the copyright, to copy and distribute an unlimited number of copies of Program X, prepare derivative works based upon Program X, make public performances of Program X, and publicly display Program X. FP will pay DC a royalty each year equal to y percent of net revenue derived from exploiting Program X during the year, for the remaining term of the copyright. Under general tax principles, DC is treated as having sold the copyright to Program X, notwithstanding that the agreement is labeled a license.

(B) *Analysis.* The copyright to Program X is intangible property within the meaning of § 1.250(b)–3(b)(11). Because DC has sold intangible property (the copyright) under general tax principles (including under § 1.861–18(f)(1)), DC's income or gain resulting from the sale is excluded property sales income.

(C) *Alternative facts—license.* The facts are the same as in paragraph (h)(4)(i)(A) of this section, except the license from DC to FP is a nonexclusive revocable license for the remaining term of the copyright and, therefore, is treated as a license under general tax principles (including § 1.861–18(f)(1)). DC's income or gain resulting from the license is not excluded property sales income.

(ii) *Example 2: Sale of copyrighted article.*

(A) *Facts.* DC, a domestic corporation, owns the copyright to a computer program, Program X. DC transfers copies of Program X to unrelated foreign customers who receive the right to use the copies in perpetuity. DC also uses different copies of Program X in its own trade or business. DC has never used the copies of Program X it transfers to unrelated foreign customers in DC's own trade or business.

(B) *Analysis.* DC's income or gain from the transfer of copies of Program X, whether through an electronic or physical medium, is from the sale of copyrighted articles, as defined in § 1.861–18(c)(3). The copies of Program X are not intangible property because intangible property does not include copyrighted articles. *See* § 1.250(b)–3(b)(11). The copies of Program X sold to unrelated foreign customers are not other excluded property because, in the hands of DC, those copies of Program X are not property that is of a character subject to the allowance for depreciation under section 167 or amortization. The fact that DC also uses copies of Program X in its business does not affect this analysis, even if DC's internal use copies are other excluded property. Therefore, DC's income or gain from the sales of copies of Program X to unrelated foreign customers is not excluded property sales income.

(C) *Alternative facts—lease of a copyrighted article.* The facts are the same as in paragraph (h)(4)(ii)(A) of this section, except that the unrelated foreign customers receive the right to use the copy of Program X for a period of only two years. The transfers of the copies of Program X to unrelated foreign customers are properly classified as leases of copyrighted articles under § 1.861–18(f)(2). Therefore, because there has been no sale or other disposition of other excluded property, DC's income or gain from the lease of copies of Program X is not excluded property sales income.

(iii) *Example 3: Sale of fully depreciated property*—(A) *Facts.* DC, a domestic corporation, holds a machine for use in its trade or business. The machine has an adjusted depreciable basis of zero because it has been fully depreciated under section 167. During the taxable year, DC sells the machine to FP, an unrelated foreign person.

(B) *Analysis.* In the hands of DC, the machine is treated as property that is of a character subject to the allowance for depreciation under section 167. Therefore, the machine constitutes other excluded property, and DC's income or gain from the sale of the machine to FP is excluded property sales income.

(C) *Alternative facts—nonrecognition transaction.* The facts are the same as in paragraph (h)(4)(iii)(A) of this section, except that DC acquired the machine in a nonrecognition transaction for use in DC's trade or business and, at the time of the acquisition, the machine was fully depreciated by the previous owner. Notwithstanding the fact that the machine was not depreciated in the hands of DC (because it had been fully depreciated when acquired by DC), the machine is property that is of a character subject to the allowance for depreciation under section 167 in the hands of DC. Therefore, DC's income or gain from the sale of the machine to FP is excluded property sales income.

(iv) *Example 4: Sales of inventory and other excluded property used in a trade or business*—(A) *Facts.* DC, a domestic corporation, owns 100 airplanes. DC holds five of the airplanes for use in its trade or business and, accordingly, the planes are property that is of a character subject to the allowance for depreciation under section 167. DC holds the remaining 95 airplanes in inventory. During the taxable year, DC sells to FP, an unrelated foreign person, two airplanes that DC uses in its trade or business and 35 airplanes that DC holds in inventory.

(B) *Analysis.* DC's sales of the two airplanes are sales of other excluded property because the two airplanes are property that is of a character subject to the allowance for depreciation under section 167. Therefore, DC's income or gain from the sales of the two airplanes is excluded property sales income. DC's sales of the 35 airplanes to FP are not sales or other dispositions of other excluded property because the 35 airplanes are held as inventory and are not property that is of a character subject to the allowance for depreciation under section 167. Therefore, DC's income or gain from the sales of the 35 airplanes is not excluded property sales income.

(v) *Example 5: Sales involving members of a consolidated group.*—(A) *Facts.* P is the common parent of a consolidated group (as defined in § 1.1502–1(h)). P owns all of the only class of stock of subsidiaries DC1 and DC2, which are members (as defined in § 1.1502–1(b)) of the P consolidated group. DC1 owns ten airplanes that are property that is of a character subject to the allowance for depreciation under section 167. In Year 1, DC1 sells all ten airplanes to DC2, recognizing $100x of gain, which is deferred. DC2 holds these airplanes in inventory. In Year 2, DC2 sells all ten airplanes to an unrelated foreign person, recognizing $85x of gains.

(B) *Analysis.* The treatment of DC1's and DC2's gains on their respective sales is subject to redetermination under § 1.1502–13(c) to the extent necessary to achieve single entity treatment for the group. If DC1 and DC2 were divisions of a single corporation, the ten airplanes would be, or would have been, property that is of a character subject to the allowance for depreciation under section 167. Therefore, to achieve single entity treatment, both DC1's $100x of gain and DC2's $85x of gains are treated in Year 2 as income or gain from the sales of other excluded property and are excluded property sales income.

(vi) *Example 6: Related-party anti-abuse rule*—(A) *Facts.* DC1 is a domestic corporation that owns an 80 percent interest in the profits and capital of a domestic partnership, PRS. Unrelated persons own the remaining interests in PRS. PRS owns all of the only class of stock of DC2, a domestic corporation. DC1 owns 20 cars that are other excluded property in the hands of DC1. With a principal purpose of avoiding the application of section 250(b)(3)(A)(i)(VII)(bb), DC1 transfers all 20 cars to PRS in an exchange described in section 721(a), and PRS transfers all 20 cars to DC2 in an exchange described in section 351(a). Under section 723, PRS's basis in the cars transferred to it by DC1 is the same as DC1's basis in the cars at the time of the transfer. Under section 362, DC2's basis in the cars transferred to it by PRS is the same as the basis of the cars in the hands of PRS. DC2 holds the cars in inventory and recognizes gain on the subsequent sales of all 20 cars to an unrelated foreign person.

(B) *Analysis.* DC1, PRS, and DC2 are members of a modified affiliated group for purposes of paragraph (h)(3) of this section. Because DC2 acquired property that was other excluded property in the hands of DC1, a member of DC2's modified affiliated group for purposes of paragraph (h)(3) of this section, in a series of transactions in which the basis of the property was determined by reference to the basis in the hands of the transferor and with a principal purpose of avoiding the application of section 250(b)(3)(A)(i)(VII)(bb), the 20 cars are treated as other excluded property in the hands of DC2. Therefore, DC2's gain from the sales of the 20 cars are excluded property sales income.

■ **Par. 5.** Section 1.250(b)–3 is amended by adding two new sentences at the end of paragraph (b)(16) to read as follows:

§ 1.250(b)–3 Foreign-derived deduction eligible income (FDDEI) transactions.

* * * * *

(b) * * *

(16) * * * The definition of *sale* in this paragraph (b)(16) does not apply for purposes of § 1.250(b)–1(c)(15)(vii) and (h). *See* § 1.250(b)–1(h)(2)(iii) for the definition of *sale or other disposition* for purposes of determining excluded property sales income.

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■ **Par. 6.** Section 1.250(b)–4 is amended by removing and reserving paragraphs (d)(2)(iv)(B)(*3*) through (*5*), and (*8*), to read as follows:

§ 1.250(b)–4 Foreign-derived deduction eligible income (FDDEI) sales.

* * * * *

(d) * * *

(2) * * *

(iv) * * *

(B) * * *

(*3*) [Reserved]

(*4*) [Reserved]

(*5*) [Reserved]

* * * * *

(*8*) [Reserved]

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Frank J. Bisignano,

Chief Executive Officer.

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DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG–107855–25]

RIN 1545–BR50

Determination of Target Normal Cost and Funding Target for Single-Employer Defined Benefit Plans

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking.

SUMMARY: This document contains proposed regulations that would modify