more efficient, transparent, and cost-effective and thereby promote competition. The Commission requests comments on this preliminary analysis and on the potential impact of the proposed amendments on competition.

E. Executive Orders 12866, 13563, and 14192

Executive Orders 12866 and 13563 direct agencies to assess all costs and benefits of available regulatory alternatives and, if regulation is necessary, to select those regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety, and other advantages; and distributive impacts). Section 3(f) of Executive Order 12866 defines a ''significant regulatory action'' as any regulatory action that is likely to result in a rule that may: (1) have an annual effect on the economy of $100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities; (2) create a serious inconsistency or otherwise interfere with an action taken or planned by another agency; (3) materially alter the budgetary impact of entitlements, grants, user fees, or loan programs or the rights and obligations of recipients thereof; or (4) raise novel legal or policy issues arising out of legal mandates, or the President's priorities.

The Office of Management and Budget has determined that this action is not a significant regulatory action as defined in Executive Order 12866, as amended, and therefore it was not subject to Executive Order 12866 review.

This Proposal, if finalized as proposed, is expected to be an Executive Order 14192 deregulatory action.

List of Subjects in 17 CFR Part 37

Order Books, Permitted transactions, Swaps, Swap execution facilities, Minimum trading functionality.

For the reasons stated in the preamble, the Commodity Futures Trading Commission proposes to amend part 37 of title 17 of the Code of Federal Regulations as follows:

Revise part 37 to read as follows:

PART 37—SWAP EXECUTION FACILITIES

■ 1. The authority citation for part 37 continues to read as follows:

Authority: 7 U.S.C. 1a, 2, 5, 6, 7, 7a–2, 7b–3, and 12a, as amended by Titles VII and VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111–203, 124 Stat. 1376.

■ 2. Revise § 37.3(a)(2) to read as follows:

§ 37.3 Requirements and procedures for registration.

(a) * * *

(2) *Minimum trading functionality.* A swap execution facility shall, at a minimum, offer an Order Book as defined in paragraph (a)(3) of this section for Required Transactions as defined in § 37.9(a)(1).

* * * * *

Issued in Washington, DC, on August 24, 2026, by the Commission.

Robert Sidman,

Deputy Secretary of the Commission.

Note: The following appendix will not appear in the Code of Federal Regulations.

Swap Execution Facility Order Book Requirement for Permitted Transactions—Voting Summary

On this matter, Chairman Selig voted in the affirmative. No Commissioner voted in the negative.

[FR Doc. 2026–17416 Filed 8–25–26; 8:45 am]

BILLING CODE 6351–01–P

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG–115646–25]

RIN 1545–BR77

Pro Rata Share of Subpart F Income, Tested Income, or Tested Loss

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking.

SUMMARY: This document contains proposed regulations relating to the determination of a United States shareholder's pro rata share of subpart F income, tested income, or tested loss of a controlled foreign corporation. The proposed regulations would affect shareholders of foreign corporations, including United States shareholders of controlled foreign corporations.

DATES: Written or electronic comments and requests for a public hearing must be received by October 26, 2026.

ADDRESSES: Commenters are strongly encouraged to submit public comments electronically. Submit electronic submissions via the Federal eRulemaking Portal at *www.regulations.gov* (indicate IRS and REG–115646–25) by following the online instructions for submitting comments. Requests for a public hearing must be submitted as prescribed in the ''Comments and Requests for a Public Hearing'' section. 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 to the IRS's public docket. Send paper submissions to: CC:PA:01:PR (REG–115646–25), Room 5503, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044.

FOR FURTHER INFORMATION CONTACT: Concerning the proposed regulations, Dylan J. Steiner at (202) 317–6934; concerning submissions of comments and requests for a public hearing, contact the Publications and Regulations Section of the Office of Associate Chief Counsel (Procedure and Administration) by email at *publichearings@irs.gov* (preferred) or by telephone at (202) 317–6901 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Authority

This document contains proposed additions and amendments to 26 CFR part 1 (proposed regulations) under sections 951 and 951A and certain other provisions of the Internal Revenue Code (Code) relating to the determination of a United States shareholder's pro rata share of subpart F income, tested income, or tested loss of a controlled foreign corporation. The proposed regulations also include guidance regarding the transition rule (transition rule) in section 70354(c)(2) of Public Law 119–21, 139 Stat. 72 (July 4, 2025), commonly known as the One, Big, Beautiful Bill Act (OBBBA). The proposed regulations are issued pursuant to the express delegations of authority in section 951(a)(4) and section 70354(c)(2) of the OBBBA. The proposed regulations are also issued pursuant to the express delegation of authority in section 7805(a).

Background

I. Scope

This Background describes the rules for determining a United States shareholder's pro rata share of subpart F income, tested income, or tested loss, as relevant, as well as certain other related provisions. Any term used but not defined in this preamble has the meaning given to it in the proposed regulations.

II. Pro Rata Share Rules

A. Rules Before OBBBA

Former section 951(a)(1)(A), as in effect before amendments made by the OBBBA,[1] generally required a United States shareholder (U.S. shareholder) (as defined in section 951(b)) of a foreign corporation to include in gross income its pro rata share of the corporation's subpart F income (as defined in section 952) for a taxable year of the corporation if the corporation was a controlled foreign corporation (CFC) (as defined in section 957(a)) at any time during the taxable year and the shareholder owned stock of the corporation on the last day of the taxable year on which the corporation was a CFC (last relevant day). For this purpose, ownership of stock was determined under section 958(a) and thus included stock owned directly and stock owned indirectly through foreign corporations and other foreign entities (including certain domestic entities to the extent treated as foreign entities under § 1.958–1(d)(1)).[2] Under former section 951(a)(1)(B), a U.S. shareholder was generally also required to include in gross income its amount determined under section 956 for the taxable year of the foreign corporation.

For purposes of former section 951(a)(1)(A), a U.S. shareholder's pro rata share of a CFC's subpart F income for a taxable year of the CFC was calculated by first determining the amount described in former section 951(a)(2)(A). This amount, which was determined based on the U.S. shareholder's proportionate share of a hypothetical distribution by the CFC, represented subpart F income (unreduced by distributions during the taxable year) allocable to stock of the CFC that the U.S. shareholder owned on the last relevant day. *See* § 1.951–1(b) and (e). This amount was limited under former section 951(a)(2)(A) based on the portion of the taxable year during which the foreign corporation was a CFC. The amount determined under former section 951(a)(2)(A) was then reduced for certain distributions under former section 951(a)(2)(B) to arrive at the U.S. shareholder's pro rata share of the CFC's subpart F income. Former section 951(a)(2)(B) addressed cases in which stock of a CFC owned by a U.S. shareholder on the last relevant day was acquired by the U.S. shareholder during the CFC's taxable year by generally reducing the U.S. shareholder's pro rata share of the CFC's subpart F income by the amount of dividends received by any other person during the taxable year with respect to the acquired stock (but limited that reduction based on the portion of the CFC's taxable year during which the U.S. shareholder did not own the stock of the CFC).

Former section 951A(a) required a U.S. shareholder of a CFC to include in gross income its global intangible low-taxed income (GILTI inclusion amount). *See* § 1.951A–1(b). A U.S. shareholder's GILTI inclusion amount was determined by taking into account the shareholder's pro rata share of tested items (as defined in § 1.951A–1(f)(5)) of CFCs in which the shareholder owned stock, such as tested income, tested loss, and qualified business asset investment. *See* § 1.951A–1(c). A U.S. shareholder's pro rata share of a CFC's tested items was determined in the same manner as a U.S. shareholder's pro rata share of a CFC's subpart F income under former section 951(a)(2), subject to certain modifications. *See* section 951A(e)(1) and § 1.951A–1(d).

B. OBBBA Revisions

1. Overview

The OBBBA amended sections 951(a) and 951A for taxable years of foreign corporations beginning after December 31, 2025. The OBBBA also provided the transition rule for certain taxable years before the amendments to sections 951(a) and 951A apply.

2. Revised Section 951(a)

As amended by the OBBBA, section 951(a)(1)(A) requires a U.S. shareholder of a foreign corporation to include in gross income the U.S. shareholder's pro rata share of the foreign corporation's subpart F income if the foreign corporation is a CFC at any time during the foreign corporation's taxable year (a CFC year) and the U.S. shareholder owns stock of the foreign corporation on any day during the CFC year. Thus, unlike pre-OBBBA law, a section 951(a)(1)(A) inclusion is not limited to U.S. shareholders that own stock in the CFC on the last relevant day. However, the OBBBA retains the last relevant day rule in section 951(a)(1)(B), under which a U.S. shareholder is generally required to include in gross income its amount determined under section 956.

For purposes of section 951(a)(1)(A), the OBBBA replaced the hypothetical distribution and reduction rules for determining a U.S. shareholder's pro rata share of subpart F income under former sections 951(a)(2)(A) and (B) with an approach that is instead based on the subpart F income attributable to the U.S. shareholder's ownership of stock of the foreign corporation during the CFC year. Specifically, section 951(a)(2) provides that a U.S. shareholder's pro rata share of a CFC's subpart F income is the portion of such income that is attributable to the stock of the foreign corporation owned by the shareholder and any period of the CFC year during which (i) the shareholder owned such stock, (ii) the shareholder was a U.S. shareholder of the corporation, and (iii) the corporation was a CFC.

The OBBBA also modified the time at which amounts determined under sections 951(a)(1)(A) and (B) are included in gross income by a U.S. shareholder. Under section 951(a)(3), any amount required to be included in gross income by a U.S. shareholder under section 951(a)(1)(A) or (B) with respect to a CFC year is included in gross income for the U.S. shareholder's taxable year that includes the last day on which the shareholder owns stock in the CFC during such CFC year.

Section 951(a)(4) provides that the Secretary shall prescribe such regulations or other guidance as may be necessary or appropriate to carry out the purposes of section 951(a), including regulations or other guidance allowing taxpayers to elect, or requiring taxpayers, to close the taxable year of a CFC upon a direct or indirect disposition of stock of the corporation.

3. Revised Section 951A

As amended by the OBBBA, section 951A(a) requires each person that is a U.S. shareholder of a CFC for any taxable year of the U.S. shareholder to include in gross income the U.S. shareholder's net CFC tested income for the taxable year. Section 951A(b)(1) provides that net CFC tested income means, with respect to any U.S. shareholder for any taxable year of the U.S. shareholder, the excess (if any) of (i) the aggregate of the U.S. shareholder's pro rata share of the tested income of each CFC with respect to which the shareholder is a U.S. shareholder for the taxable year of the U.S. shareholder, over (ii) the aggregate of the U.S. shareholder's pro rata share of the tested loss of each CFC with respect to which the shareholder is a U.S. shareholder for the taxable year of the U.S. shareholder.

Section 951A(c) provides that the pro rata shares of tested income and tested loss referred to in section 951A(b)(1) are determined under the rules of section 951(a)(2) in the same manner as section 951(a)(2) applies to subpart F income

[1] All references to former provisions under section 951 or 951A in this preamble are to the versions of those provisions as in effect before the amendments made by the OBBBA.

[2] For purposes of this preamble, a reference to stock ownership means stock owned within the meaning of section 958(a).

and are taken into account in the taxable year of the U.S. shareholder determined under section 951(a)(3).

4. Transition Rule

For certain taxable years before the amendments to sections 951(a) and 951A made by the OBBBA apply, a U.S. shareholder determines its pro rata share of subpart F income and tested items under the transition rule. The transition rule provides that certain dividends are not treated as dividends for purposes of applying former section 951(a)(2)(B), except to the extent provided by the Secretary.

A dividend is subject to the transition rule if the dividend is (i) paid or deemed paid on or before June 28, 2025, and during the taxable year of a CFC that includes such date, provided the U.S. shareholder described in section 951(a) did not own (within the meaning of section 958(a)) the stock of the CFC during the portion of the taxable year on or before June 28, 2025, or (ii) paid or deemed paid after June 28, 2025, and before a foreign corporation's first taxable year beginning after December 31, 2025. *See* section 70354(c)(2)(A) of the OBBBA. Any dividend subject to the transition rule is not treated as a dividend for purposes of applying former section 951(a)(2)(B) if the dividend does not increase the taxable income of a United States person subject to Federal income tax for the taxable year (including by reason of a dividends received deduction, an exclusion from gross income, or an exclusion from subpart F income). *See* section 70354(c)(2)(B) of the OBBBA.

On December 4, 2025, the Treasury Department and the IRS released Notice 2025–75, 2025–52 I.R.B. 867 (transition rule notice), describing rules expected to be included in forthcoming proposed regulations regarding the application of the transition rule. The transition rule notice describes rules addressing the meaning of dividends paid or deemed paid by a CFC and the determination of whether a dividend does not increase the taxable income of a United States person subject to Federal income tax.

III. Other Provisions

A. Section 951B

The OBBBA added section 951B, which generally provides that sections 951 through 965 (other than sections 951A, 951(b), and 957) apply to any foreign controlled United States shareholder (FCUSS) of a foreign controlled foreign corporation (FCFC) by substituting ''foreign controlled United States shareholder'' for ''United States shareholder'' each place it appears and by substituting ''foreign controlled foreign corporation'' for ''controlled foreign corporation'' each place it appears. *See* section 951B(a)(1). Section 951A applies to an FCUSS by treating each reference to a ''United States shareholder'' in such section as including a reference to an FCUSS, and by treating each reference to a ''controlled foreign corporation'' in such section as including a reference to an FCFC. *See* section 951B(a)(2).

Section 951B(b) provides that an FCUSS is any United States person that would be a U.S. shareholder with respect to a foreign corporation if section 951(b) were applied by substituting ''more than 50 percent'' for ''10 percent or more,'' and section 958(b) were applied without regard to section 958(b)(4). Section 951B(c) provides that an FCFC is a foreign corporation, other than a CFC, which would be a CFC if section 957(a) were applied by substituting ''foreign controlled United States shareholders'' for ''United States shareholders,'' and section 958(b) were applied without regard to section 958(b)(4).

B. Section 960

Section 901(a) generally provides that a taxpayer choosing to credit foreign income taxes is allowed a credit for certain foreign income taxes paid or accrued by the taxpayer plus, in the case of a corporation, the taxes deemed to have been paid by the corporation under section 960.

Section 960(a) provides that, if a domestic corporation that is a U.S. shareholder of a CFC includes any item of income under section 951(a)(1), the domestic corporation is deemed to have paid so much of the CFC's foreign income taxes as are properly attributable to such item of income. Section 960(d) generally provides that if any amount is includible in the gross income of a domestic corporation under section 951A, the domestic corporation is deemed to pay a percentage of the foreign income taxes paid or accrued by its CFCs with respect to their tested income.

C. Section 245A and § 1.245A–5(e) and (f)

Section 245A(a) allows a domestic corporation that is a U.S. shareholder a 100-percent deduction for the foreign-source portion of a dividend received from a specified 10-percent owned foreign corporation (section 245A deduction). *See also* sections 964(e)(4) and 1248(j) (generally permitting the section 245A deduction in connection with the sale or exchange of stock of a CFC). A specified 10-percent owned foreign corporation (SFC) is defined as any foreign corporation (other than a passive foreign investment company as defined in section 1297) with respect to which a domestic corporation is a U.S. shareholder.

Section 954 generally provides that a dividend received by a CFC is included in the CFC's foreign personal holding company income (as defined in section 954(c)) and, thus, in the determination of the CFC's subpart F income. Under section 954(c)(6), however, a dividend received by a CFC from a related CFC is not included in the CFC's foreign personal holding company income if certain requirements are met (section 954(c)(6) exception).

Under § 1.245A–5(e), a section 245A shareholder (defined as a domestic corporation that is a U.S. shareholder with respect to an SFC and that owns directly or indirectly stock of the SFC) is not allowed a section 245A deduction for any dividend received from an SFC to the extent of the extraordinary reduction amount. Additionally, § 1.245A–5(f) provides that, if an upper-tier CFC receives a dividend from a lower-tier CFC in the same taxable year that an extraordinary reduction occurs with respect to the lower-tier CFC, then the section 954(c)(6) exception applies only to the extent the dividend exceeds the tiered extraordinary reduction amount.

In general, an extraordinary reduction amount is, with respect to a dividend received by a controlling section 245A shareholder (as defined in § 1.245A–5(i)(2)) from a CFC during a taxable year of the CFC in which an extraordinary reduction occurs with respect to the controlling section 245A shareholder's ownership of the CFC, the lesser of (i) the amount of the dividend, and (ii) the amount equal to the sum of the controlling section 245A shareholder's pre-reduction pro rata share of the CFC's subpart F income and tested income for the taxable year, reduced, but not below zero, by the prior extraordinary reduction amount. A pre-reduction pro rata share generally reflects the amount of subpart F income and tested income that the shareholder would have included in income, absent the extraordinary reduction. An extraordinary reduction generally occurs where a controlling section 245A shareholder transfers more than 10 percent of the CFC's stock during the CFC's taxable year or where the shareholder's ownership of the CFC otherwise decreases by more than 10 percent by the end of the taxable year.

An election may be made to close a CFC's taxable year if an extraordinary reduction occurs with respect to a controlling section 245A shareholder and there would be an extraordinary reduction amount or tiered extraordinary reduction amount greater than zero. If the election is made, no amount is considered an extraordinary reduction amount or tiered extraordinary reduction amount with respect to the controlling section 245A shareholder. Instead, the CFC's taxable year closes for all purposes of the Code and for all shareholders of the CFC.

Explanation of Provisions

I. Scope

The proposed regulations would provide rules under sections 951 and 951A that determine a U.S. shareholder's pro rata share of a CFC's subpart F income, tested income, or tested loss. The proposed regulations would also modify information reporting regulations under section 6038 and the applicability date of certain regulations under sections 245A and 1502.

II. Section 951 Regulations

A. Overview

The proposed regulations under section 951 would provide rules to determine a U.S. shareholder's pro rata share of a CFC's subpart F income that reflect the changes to section 951(a) made by the OBBBA. The proposed regulations would also provide rules that require or permit the closing of a foreign corporation's taxable year in certain circumstances for all purposes of the Code.

B. Income Inclusion Rule

The proposed regulations would require each U.S. shareholder of a foreign corporation that owns stock in the foreign corporation at any time during a taxable year of the foreign corporation that is a CFC year to include in gross income the U.S. shareholder's pro rata share of the foreign corporation's subpart F income for the CFC year. *See* proposed § 1.951–1(b)(1). This amount is included in gross income in the U.S. shareholder's taxable year that includes the last day on which the shareholder owns stock in the foreign corporation during the CFC year. The determination of the amount of a U.S. shareholder's pro rata share of subpart F income of a CFC for a CFC year is discussed in part II.E of this Explanation of Provisions.

The proposed regulations would also provide a rule for section 956 inclusions under section 951(a)(1)(B). *See* proposed § 1.951–1(b)(2). Because the amendments made by the OBBBA to section 951 generally retain the same approach to determining inclusions under section 951(a)(1)(B), this rule is consistent with the regulations under former section 951(a)(1)(B). However, as with inclusions of subpart F income under section 951(a)(1)(A), the proposed regulations would provide that amounts required to be included in gross income under section 951(a)(1)(B) are included in the U.S. shareholder's taxable year that includes the last day on which the shareholder owns stock in the foreign corporation during the CFC year, which may accelerate the taxable year of the inclusion relative to former section 951(a)(1)(B). Further, as discussed in part II.D of this Explanation of Provisions, the closing of a foreign corporation's taxable year under the proposed regulations may affect the calculation of amounts under section 956 and a U.S. shareholder's inclusion under section 951(a)(1)(B).

C. Changes in Ownership of CFC Stock

As revised in the OBBBA, a U.S. shareholder's pro rata share of a CFC's subpart F income (as well as tested income or tested loss) is the amount attributable to the stock of the CFC owned by the U.S. shareholder and the periods of the CFC year during which the U.S. shareholder owned such stock while the foreign corporation was a CFC. The Treasury Department and the IRS considered various recommendations for implementing the OBBBA's revisions to the pro rata share rules. For example, the Treasury Department and the IRS considered a suggestion to address changes in ownership of stock of a CFC by permitting taxpayers to elect a per diem approach with exceptions for extraordinary items or an interim closing of the books approach, and to provide taxpayers an election to close the taxable year of CFCs in certain circumstances comparable to the election permitted under § 1.245A–5(e). The Treasury Department and the IRS also considered a suggestion to provide for both elective and mandatory closings with respect to the taxable year of a CFC, depending on the amount of ownership shift in a given transaction, and to otherwise address changes in ownership of stock of a CFC by implementing a ratable approach to determining a U.S. shareholder's pro rata share.

In general, in cases where there is no change in the ownership of stock of a CFC during its taxable year, a U.S. shareholder's pro rata share under the proposed regulations would be the same as determined under the existing rules in § 1.951–1(e) (*see* part II.E of this Explanation of Provisions). However, to address changes in ownership of stock of a CFC, and largely consistent with a recommendation received, the proposed regulations would generally apply a daily proration approach to allocating subpart F income, tested income, or tested loss to U.S. shareholders and, in certain cases, would require or permit a closing of the taxable year.

The Treasury Department and the IRS are of the view that other suggested approaches to address changes in ownership of stock of a CFC, such as an interim closing of the foreign corporation's books or a special allocation of extraordinary items, may, in certain cases, be complex, administratively burdensome, or lead to inappropriate results (for example, when the earnings and profits (E&P) limitation under section 952(c) applies). Rules in other contexts that adopt such approaches in allocating various items of income, gain, deduction, loss, and credit attributable to a taxpayer's ownership period differ from the pro rata share rules in that sections 951 and 951A require the allocation of subpart F income, tested income, or tested loss, each of which is a single, net amount determined at the foreign corporation level with respect to its taxable year. *Cf.* § 1.706–4 (providing various rules, including a proration approach, interim closing method, and extraordinary item exception, where a partner's interest in a partnership varies during its taxable year) and § 1.1502–76(b) (permitting the ratable allocation of a year's items (other than extraordinary items) between the periods ending and beginning with a corporation becoming or ceasing to be a member of a consolidated group). The statutory language in section 951(a)(1)(A) requires this result by referring to the pro rata share of ''the corporation's subpart F income for the CFC year,'' which, in using the term defined in section 952, means the pro rata share of the sum of the amounts described in section 952(a) and not the pro rata share of specific items that comprise subpart F income. *See also* section 951A(c)(1) (providing that a U.S. shareholder's pro rata share of a CFC's tested income or tested loss, each defined in section 951A(b)(2) as a net amount for the CFC's taxable year, is determined under the rules of section 951(a)(2) in the same manner as such section applies to subpart F income).

The proposed regulations would require a closing of a foreign corporation's taxable year only in circumstances where the change in ownership of stock of a foreign corporation results in the foreign corporation becoming or ceasing to be a CFC (subject to certain modifications for determining CFC status that generally are intended to prevent avoidance of the rule). *See* part II.D.2 of this Explanation of Provisions. In those cases, the provision's requirement to determine the subpart F income, tested income, or tested loss attributable to the ownership period of a U.S. shareholder is appropriately carried out by confining the analysis to the period in which the relevant earnings of the foreign corporation are subject to U.S. taxation under sections 951 through 965. The closing of the foreign corporation's taxable year in such cases prevents items of income, gain, deduction, or loss incurred while the foreign corporation's earnings are not subject to the subpart F provisions of the Code from affecting the determination of a U.S. shareholder's pro rata share under section 951 or 951A. Additionally, the required closing of the foreign corporation's taxable year may mitigate potential compliance burdens associated with obtaining information relating to the foreign corporation while it is owned and controlled by foreign persons.

In other cases involving changes in the ownership of stock of a foreign corporation during a CFC year, the proposed regulations would generally apply a daily proration approach. *See* part II.E of this Explanation of Provisions. The Treasury Department and the IRS are of the view that this approach, which allocates subpart F income (as well as tested income or tested loss) proportionately based on the number of days in the CFC year, is consistent with the statute's requirement to attribute an overall income amount to periods of ownership. *See also* §§ 1.1248–2 and 1.1248–3 (applying a similar daily proration approach for purposes of determining E&P attributable to foreign corporation stock owned by a United States person during certain periods). However, for certain changes in the ownership of stock of a CFC involving unrelated persons that generally result in shifts of ownership of more than 50 percentage points, the proposed regulations would provide an election to close the CFC's taxable year. This election permits taxpayers to achieve the accuracy, certainty, and reduced compliance burdens afforded by closing the taxable year in lieu of applying the daily proration approach to the entire taxable year. *See* part II.D.3 of this Explanation of Provisions. Contrary to certain recommendations that an elective closing be available upon less substantial transfers of ownership, the proposed regulations would limit elective closings to these circumstances, as a greater than 50 percentage point shift in ownership generally indicates that a seller or selling group has relinquished control of the CFC and therefore has a heightened interest in closing the CFC's taxable year so as to avoid the effect of the new controlling shareholder or shareholders' actions on the determination of their pro rata share. In these cases, the seller typically does not remain involved in the CFC's activities after relinquishing control, and an inability to close the taxable year could require the buyer and seller to coordinate in terms of tax compliance and controversy defense with respect to that year, potentially necessitating complex contractual provisions. Further, the potential benefit afforded by a closing of the CFC's taxable year in cases of less significant changes in ownership would likely be outweighed by the resulting compliance and administrative burden, and the additional flexibility to close the taxable year of a CFC could lead to improper manipulation or abuse if it was available for minor changes in ownership or transfers involving related persons.

D. Determination of CFC Year

1. In General

A U.S. shareholder's pro rata share of a foreign corporation's subpart F income is determined by reference to a CFC year of the foreign corporation. The determination of a CFC year of a foreign corporation is made after the application of rules in the proposed regulations that would require or permit the closing of the taxable year of a foreign corporation in certain cases where there is a change in the ownership of stock of the foreign corporation.

2. Mandatory Closing of Taxable Year of Foreign Corporation

The proposed regulations would provide that a foreign corporation closes its taxable year if there is a status change event, which occurs if a foreign corporation becomes or ceases to be a CFC. *See* proposed § 1.951–1(d)(1). If there is a status change event, the taxable year of the foreign corporation closes for all purposes of the Code and, thus, the closing applies to all shareholders of the foreign corporation regardless of whether a particular shareholder's ownership of stock in the foreign corporation changes.

The taxable year of the foreign corporation closes as of the end of the day on which the status change event occurs, which is the last day that the foreign corporation is or is not a CFC (unless the taxable year otherwise closes as of such date under another provision of the Code, for example, as a result of a section 338(g) election). *See* proposed § 1.951–1(d)(1)(ii). Thus, for example, if a domestic corporation owns all the stock of a foreign corporation (which uses a calendar taxable year) and sells all the stock of the foreign corporation to a nonresident alien individual on June 30, the status change event would occur on June 30, the date the foreign corporation ceases to be a CFC, and the taxable yefar of the foreign corporation would close as of the end of the day on June 30. *See also* proposed § 1.951–1(f) (regarding the ownership period of foreign corporation stock) discussed in part II.F of this Explanation of Provisions.

The proposed regulations would provide additional rules for domestic partnerships (including certain S corporations treated as partnerships by operation of section 1373(a)) and options to acquire stock in determining whether there is a status change event that requires the closing of a foreign corporation's taxable year. *See* proposed § 1.951–1(d)(1)(iii). Specifically, solely for this purpose, in determining whether a foreign corporation is a CFC when stock of a foreign corporation is owned through a domestic partnership, the rule in § 1.958–1(d)(1) would apply without regard to the exceptions in § 1.958–1(d)(2)(i) and (ii) (and, thus, a domestic partnership would not be treated as owning stock of a foreign corporation within the meaning of section 958(a)). A similar rule would disregard the constructive ownership of stock of a foreign corporation by reason of an option to acquire such stock under section 318(a)(4) and § 1.958–2(e). These rules are generally intended to ensure that, while the requirement to close the taxable year of a foreign corporation is based on the CFC status of the foreign corporation, the CFC status of the foreign corporation for this purpose is determined by reference to the U.S. shareholders of the foreign corporation that are subject to income inclusions under sections 951 and 951A. Thus, for example, if a domestic corporation sells all the stock of a foreign corporation that is a CFC to a domestic partnership, and not more than 50 percent of the stock of the foreign corporation is owned after the sale, in the aggregate, by partners of the domestic partnership that are U.S. shareholders in the foreign corporation, the sale results in a status change event of the foreign corporation because, for this purpose, the foreign corporation ceases to be a CFC. Similarly, if a domestic partnership sells all the stock of a foreign corporation to a domestic corporation, and not more than 50 percent of the stock of the foreign corporation was owned before the sale, in the aggregate, by partners of the domestic partnership that were U.S. shareholders in the foreign corporation, the sale also results in a status change event because, for this purpose, the foreign corporation *becomes* a CFC.

3. Election To Close Taxable Year of Foreign Corporation

Under the proposed regulations, the controlling section 958(a) U.S. shareholders of a CFC may elect to close the CFC's taxable year if a significant ownership variance occurs with respect to the CFC and the taxable year does not otherwise close on that date. *See* proposed § 1.951–1(d)(2). As with the mandatory closing of a foreign corporation's taxable year described in part II.D.2 of this Explanation of Provisions, if the election is made, the taxable year of the CFC closes for all shareholders of the foreign corporation and for all purposes of the Code as of the end of the day on which the significant ownership variance occurs.

The determination of whether there is a significant ownership variance is based on the total change in ownership of CFC stock by section 958(a) U.S. shareholders resulting from all specified transfers that occur pursuant to the same plan during what would be the taxable year of a CFC absent an elective closing (default taxable year). A significant ownership variance generally occurs if the specified transfers result in a decrease by more than 50 percentage points in section 958(a) shareholder ownership. *See* proposed § 1.951–1(d)(2)(ii)(A). For this purpose, a specified transfer generally includes a change in the ownership of the stock of a CFC resulting from a sale, exchange, or other disposition of stock of a foreign corporation or a partnership interest, as well as an issuance of stock or a partnership interest.

Because a significant ownership variance looks to all specified transfers that occur pursuant to the same plan during the same default taxable year of a CFC, the proposed regulations are intended to make the election available for transactions undertaken by multiple section 958(a) U.S. shareholders or that involve multiple specified transfers over the course of the CFC's default taxable year. For example, the proposed regulations would permit an elective closing of a CFC's taxable year if multiple section 958(a) U.S. shareholders that separately do not own more than 50 percent of the stock of a CFC together sell more than 50 percent of the stock of the CFC pursuant to the same plan on different days during the CFC's default taxable year.

If there are multiple specified transfers that occur pursuant to the same plan on different days in a default taxable year of a CFC, the significant ownership variance occurs on the day that the last such specified transfer occurs. *See* proposed § 1.951–1(d)(2)(ii)(A). This is the case regardless of the day on which there has been a more than 50-percent decrease in the ownership percentage of one or more section 958(a) U.S. shareholders of the CFC. For example, assume US1 and US2, both domestic corporations, own 60 percent and 40 percent of the stock of CFC, respectively. CFC uses a calendar taxable year. On June 30, US1 sells all its stock of CFC (60 percent) to US3, also a domestic corporation that is not related to US1 or US2, and pursuant to the same plan, US2 sells all its stock in CFC (40 percent) to US3 on September 1. In that case, the significant ownership variance occurs on September 1, the date of US2's sale, and, if an election is made, the taxable year of CFC closes on that date.

The Treasury Department and the IRS are of the view that the elective closing of the taxable year of a CFC should be restricted with respect to specified transfers among related parties because, in those cases, the change in economic ownership of CFC stock is less meaningful or possibly absent. Likewise, there is less reason, from an accuracy and burden-reduction standpoint, to provide an elective closing in the case of a transfer between related persons, and the availability of the election may lead to inappropriate manipulation (for example, transactions may be undertaken solely for purposes of closing a CFC's taxable year). Accordingly, the proposed regulations would generally provide that, in determining whether there is a significant ownership variance with respect to a CFC, the percentage of ownership of stock of the CFC owned by section 958(a) U.S. shareholders is not treated as decreasing to the extent there is an increase in the percentage of ownership of stock of the CFC by a related United States person. *See* proposed § 1.951–1(d)(2)(ii)(C)(*1*). For similar reasons, the proposed regulations would not take into account certain transfers in connection with reorganizations described in section 368(a)(1)(F) for this purpose. *See* proposed § 1.951–1(d)(2)(ii)(C)(*2*).

The section 958(a) U.S. shareholders of a CFC are the U.S. shareholders that own stock of the CFC. For purposes of making the election to close a CFC's taxable year, the controlling section 958(a) U.S. shareholders are all the section 958(a) U.S. shareholders of a CFC whose ownership of stock of the CFC decreases in a significant ownership variance. In certain cases, there may be only one controlling section 958(a) U.S. shareholder that makes the election (for example, if a U.S. shareholder owns all the stock of a CFC). A domestic partnership is not treated as owning stock of a CFC for this purpose and therefore cannot be a section 958(a) U.S. shareholder or a controlling section 958(a) U.S. shareholder. *See* § 1.958–1(d).

To make the election, the controlling section 958(a) U.S. shareholders and each U.S. shareholder (if any) of the CFC that owns stock of the CFC on any date during the CFC's taxable year on or before the date of the significant ownership variance must enter into a written, binding agreement that all parties agree to the election. Each party to this binding agreement must be able to present the agreement to the IRS for inspection upon request. No binding agreement is required, however, if there is only one controlling section 958(a) U.S. shareholder and no other relevant U.S. shareholders of the CFC. Additionally, for this purpose, a U.S. shareholder that acquires stock of the CFC on the date of the significant ownership variance is not considered as owning that stock on that date and therefore is not required to enter the binding agreement unless the shareholder otherwise was a U.S. shareholder on or before that date. *See* proposed § 1.951–1(f). The proposed regulations would prescribe additional procedural requirements for making the election, including the requirement to provide certain information in a statement that must be submitted to the IRS. *See* proposed § 1.951–1(d)(2)(iv). The proposed regulations would also provide a consistency requirement, under which, if a significant ownership variance occurs with respect to multiple CFCs pursuant to a plan or series of related transactions, an election to close a CFC's taxable year may be made only if the election is made with respect to all the CFCs. *See* proposed § 1.951–1(d)(2)(vi).

4. Allocation of Foreign Income Taxes

The proposed regulations would provide a rule for allocating certain foreign income taxes that accrue during the period that would have been the foreign corporation's taxable year if not for the mandatory or elective closing. A mandatory or elective closing of a foreign corporation's taxable year can result in the foreign corporation's foreign taxable year spanning multiple short U.S. taxable years. However, the foreign income tax with respect to that foreign taxable year would accrue only in the U.S. taxable year in which the foreign taxable year ends. *See* § 1.905–1(d)(1)(i). The proposed regulations would address this issue by requiring an allocation of a portion of the foreign income tax that accrues in the CFC's U.S. taxable year following the closing date to the U.S. taxable year ending with the closing. *See* proposed § 1.951–1(d)(3)(i). The portion of the foreign income tax allocated to the U.S. taxable year ending with the closing is determined based on the portion of the foreign taxable income attributable to the period of the foreign taxable year ending with the closing using the closing of the books method described in § 1.1502–76(b). For example, if a foreign corporation that uses a calendar taxable year for both U.S. and foreign income tax purposes has its U.S. taxable year close on June 30 as a result of a mandatory or elective closing and the foreign corporation earned 50 percent of its foreign taxable income from January to June 30, 50 percent of the foreign income tax that accrues on December 31 (at the end of the foreign corporation's foreign taxable year and during its U.S. taxable year following the June 30 closing) would be allocated to its U.S. taxable year ending with the closing (January 1 to June 30).

5. Taxable Years of Partnerships Owned by Foreign Corporations

In the case of a foreign corporation that owns an interest in a partnership, generally, the partnership's taxable year would not close for any purpose of the Code solely as a result of the foreign corporation's taxable year closing. Therefore, if the partnership's taxable year begins before a status change event or significant ownership variance (for which an election is made) and ends after the early closing of the foreign corporation's taxable year, the foreign corporation would include its distributive share of the partnership's items arising in that partnership taxable year entirely in the foreign corporation's short taxable year following the status change event or significant ownership variance. By contrast, a concurrent closing of the partnership's taxable year would require the partnership's items to be allocated between the foreign corporation's short taxable year ending on the day of the status change event or significant ownership variance and the following short taxable year. Because this requirement to allocate partnership items between periods that are pre- and post-sale of stock of the foreign corporation would require a seller to obtain information from a buyer to determine the foreign corporation's distributive share of partnership items includible in the foreign corporation's first short taxable year, the proposed regulations would not provide for a closing of the partnership's taxable year with respect to the foreign corporation.

The Treasury Department and the IRS welcome comments as to whether a closing of a foreign corporation's taxable year as a result of a status change event or significant ownership variance should be treated as a deemed disposition of the foreign corporation's entire interest in a partnership for purposes of section 706, and therefore result in a closing of the partnership's taxable year with respect to the foreign corporation partner. *Cf.* §§ 1.706–1(c)(2)(i) and (iii), 1.1362–3(c)(1), 1.1377–1(b)(3)(iv), and 1.1502–76(b)(2)(vi) (in certain cases, treating an early closing of a corporate partner's taxable year as a deemed disposition of the partner's entire interest in the partnership and therefore resulting in treating the partnership taxable year as closing with respect to that partner).

E. Determination of Pro Rata Share of Subpart F Income

1. In General

The proposed regulations would provide rules for determining a U.S. shareholder's pro rata share of a CFC's subpart F income for a CFC year. This determination is made after the determination of the subpart F income of the CFC for the CFC year in accordance with section 952 and other applicable provisions, such as the E&P limitation, the chain deficit rules, and the recapture rules.

In general, the proposed regulations would apply a daily proration approach for purposes of determining the amount of a CFC's subpart F income that is attributed to the period during which a U.S. shareholder owns stock of a foreign corporation while it is a CFC during the CFC year. *See* part II.E.2 of this Explanation of Provisions. The proposed regulations would provide additional rules for applying this daily proration approach in circumstances involving multiple classes of stock of a foreign corporation and changes in the number of shares of outstanding stock of a foreign corporation during the CFC year. *See* parts II.E.3 and 4 of this Explanation of Provisions.

2. Single Class of Foreign Corporation Stock

Under the proposed regulations, if at all times during the CFC year the CFC has only a single class of stock outstanding and there is no change in the number of outstanding shares of stock of the CFC, a U.S. shareholder's pro rata share of subpart F income of a CFC would be determined based on the percentage of stock of the CFC the U.S. shareholder owned (that is, the number of shares the U.S. shareholder owned over the number of outstanding shares of the CFC) and the percentage of the CFC year during which the shareholder owned the stock of the foreign corporation while it was a U.S. shareholder and the foreign corporation was a CFC. *See* proposed § 1.951–1(e)(2)(i).

Thus, for example, if two U.S. shareholders (US1 and US2) each owned 50 percent of the single class of stock of a CFC for an entire CFC year, each of US1's and US2's pro rata shares of the CFC's subpart F income for the CFC year is equal to the proportionate amount of subpart F income attributable to the stock of the CFC the U.S. shareholder owned (that is, 50 percent of CFC's subpart F income). As an additional example, if US1 instead transfers all of its stock of a CFC to another U.S. shareholder (US3) during the CFC year, each of US1 and US3's pro rata share of the CFC's subpart F income for the CFC year is equal to the proportionate amount of subpart F income attributable to the stock multiplied by the percentage of days during the CFC year on which the U.S. shareholder owned the stock of the CFC. *See* proposed § 1.951–1(e)(4)(iii) (Example 2).

The computation prescribed in the proposed regulations is made separately with respect to CFC year blocks, which are those shares of a class of stock of the CFC that a U.S. shareholder owned for the same period within the CFC year (for example, if the U.S. shareholder acquired or disposed of a portion of its shares of the class of stock of the CFC during the CFC year). *See* proposed § 1.951–1(e)(2)(i)(B). A U.S. shareholder's pro rata share of subpart F income of the CFC for the CFC year is equal to the total of the amounts determined for each of its CFC year blocks. *See* proposed § 1.951–1(e)(4)(iii) (Example 2).

3. Multiple Classes of Foreign Corporation Stock

The proposed regulations would provide additional rules to address cases in which a foreign corporation has multiple classes of stock outstanding during a CFC year. In general, the proposed regulations would adopt the hypothetical distribution analysis under existing § 1.951–1(e) for purposes of determining the subpart F income that is allocated among the classes of stock of a foreign corporation. Thus, to determine a U.S. shareholder's pro rata share of a CFC's subpart F income for a CFC year, the subpart F income is first allocated to the classes of stock of the CFC in the same proportion as the amount of allocable earnings and profits that would be distributed to each class of stock in a hypothetical distribution of the CFC's allocable earnings and profits on the last day of the CFC year (hypothetical distribution). *See* proposed § 1.951–1(e)(2)(ii). After the subpart F income is allocated to a class of stock, a U.S. shareholder determines its pro rata share of subpart F income with respect to each class of stock using the daily proration approach described in part II.E.2 of this Explanation of Provisions. *See* proposed § 1.951–1(e)(4)(iv) (Example 3).

For example, if, for the entirety of a CFC year, one U.S. shareholder (US1) owned all the common stock of a CFC and another U.S. shareholder (US2) owned all the preferred stock of the CFC, the hypothetical distribution applies to allocate the subpart F income of the CFC to the preferred and common stock. Each of US1 and US2's pro rata share of the CFC's subpart F income for the CFC year is then equal to the proportionate amount of subpart F income allocated to each class of stock of the foreign corporation that is attributable to the stock of the CFC the U.S. shareholder owned (thus, US1's pro rata share is equal to all of the subpart F income allocated to the common stock and US2's pro rata share is equal to all of the subpart F income allocated to the preferred stock). As an additional example, if US2 instead transfers all of its stock of the CFC (that is, the preferred stock) to another U.S. shareholder (US3) during the CFC year, each of US2 and US3's pro rata share of the CFC's subpart F income for the CFC year is equal to the subpart F income allocated to the preferred stock of the CFC as determined under the hypothetical distribution, multiplied by the percentage of days during the CFC year on which the U.S. shareholder owned the preferred stock of the CFC. *See* proposed § 1.951–1(e)(4)(iv) (Example 3).

4. Changes in Number of Outstanding Shares of Foreign Corporation

The proposed regulations would provide additional rules to address cases in which there are changes in the number of shares of stock of a foreign corporation outstanding during the year, for example, as a result of a redemption or issuance of stock of the foreign corporation during a CFC year. In general, the proposed regulations would adopt an approach based on the average number of shares outstanding of the foreign corporation during the CFC year. *See also* § 1.1248–3(c)(2) (applying a similar share averaging approach for purposes of determining E&P attributable to stock of a foreign corporation).

If the number of shares outstanding within a class of stock of a CFC varies during the CFC year, the proposed regulations would provide that the daily proration approach described in part II.E.2 of this Explanation of Provisions is applied with respect to a class of stock by substituting a weighted average share count for the number of the CFC's shares outstanding during the CFC year when determining the U.S. shareholder's percentage of ownership of the stock of the foreign corporation. *See* proposed § 1.951–1(e)(2)(iii)(A). The weighted average share count is equal to the sum of the number of shares outstanding on each day of the CFC year divided by the number of days in the CFC year. *See* proposed § 1.951–1(e)(4)(v) (Example 4).

If there is more than one class of stock of a CFC outstanding during the CFC year and the number of shares within a class of stock varies during the CFC year, then the hypothetical distribution described in part II.E.3 of this Explanation of Provisions is based on the allocable earnings and profits that would be distributed to a class of shares if a weighted average share count was outstanding on the last day of the CFC year. *See* proposed § 1.951–1(e)(2)(iii)(B) and (4)(v) (Example 4).

F. Ownership Period of Foreign Corporation Stock

Section 1.951–1(f) provides that, for purposes of sections 951 through 964, the holding period of an asset (including stock of a CFC) is determined by excluding the day on which such asset is acquired and including the day on which such asset is disposed of. The proposed regulations would clarify that this rule applies in determining the period when stock of a foreign corporation is owned. Thus, for example, if a U.S. shareholder sells all the stock of a CFC to another U.S. shareholder, the selling U.S. shareholder is treated as owning the stock of the CFC through the end of the day of the sale, and the acquiring U.S. shareholder is treated as owning the stock of the CFC as of the beginning of the day immediately after the sale.

III. Section 951A Regulations

A. Pro Rata Share of Tested Income or Tested Loss

The proposed regulations would revise § 1.951A–1 to coordinate the determination of a U.S. shareholder's pro rata share of a CFC's tested income or tested loss with the rules provided in proposed § 1.951–1, including the determination of a foreign corporation's CFC year under the rules for mandatory and elective closings of a foreign corporation's taxable year. *See* proposed § 1.951A–1(d). The proposed regulations would generally retain the rules relating to the allocation of tested loss to preferred stock but modify those provisions to apply for purposes of the hypothetical distribution described in proposed § 1.951–1(e)(2)(ii). *See* proposed § 1.951A–1(d)(2)(ii) and (3). The examples under § 1.951A–1 would also be modified to illustrate the pro rata share rules in the proposed regulations. *See* proposed § 1.951A–1(d)(2)(iii) and (3)(iv).

B. Section 951A Inclusion Rules

The proposed regulations would revise § 1.951A–1 to incorporate other amendments to section 951A in the OBBBA. In particular, the proposed regulations would provide that, under section 951A as revised by the OBBBA, a U.S. shareholder is required to include in gross income its net CFC tested income inclusion amount, and the proposed regulations would prescribe the rule for determining this amount. *See* proposed § 1.951A–1(b) and (c). The proposed regulations would also remove the rules for determining a U.S. shareholder's pro rata share of qualified business asset investment, tested interest expense, and tested interest income. The Treasury Department and the IRS anticipate proposing additional changes to the regulations under section 951A to conform with the amendments made in the OBBBA in a separate guidance project.

IV. Information Reporting Under Section 1.6038–2

Section 6038(a)(1) provides that every United States person that controls (within the meaning of section 6038(e)(2)) any foreign business entity must furnish with respect to that entity such information as the Secretary may prescribe related to the items listed in section 6038(a)(1)(A) through (E) and any other information that is similar or related in nature to such listed information or which the Secretary determines to be appropriate to carry out the provisions of the Code. Section 1.6038–2(f) sets forth information that may be required to be provided on Form 5471.

The proposed regulations would modify the information described in § 1.6038–2(f)(8) regarding the outstanding stock of a foreign corporation to reflect the amendments made by the OBBBA to sections 951 and 951A. *See* proposed § 1.6038–2(f)(8). Additionally, as revised, proposed § 1.6038–2(f) would provide that returns on Form 5471, *Information Return of U.S. Persons With Respect To Certain Foreign Corporations,* must contain information prescribed by Form 5471 (or successor form) and that such information may include, but is not limited to, the information set forth in § 1.6038–2(f). This revision clarifies that additional information may be required on Form 5471 that is not described by regulation, consistent with section 6038(a)(1).

V. Related Provisions

A. Section 951B

As described in part III.A of the Background, pursuant to section 951B(a)(1), section 951 applies to FCUSSs and FCFCs by replacing references to ''United States shareholder'' with ''foreign controlled United States shareholder'' and references to ''controlled foreign corporation'' with ''foreign controlled foreign corporation.'' Additionally, under section 951B(a)(2), section 951A applies to an FCUSS by treating references to a ''United States shareholder'' as including a reference to an FCUSS and by treating each reference to a ''controlled foreign corporation'' as including a reference to an FCFC.

Pursuant to the application of section 951B, the proposed regulations under sections 951 and 951A would apply to FCUSSs and FCFCs in the same manner. Thus, the proposed regulations under section 951 would apply by substituting references to ''United States shareholder'' for ''foreign controlled United States shareholder'' and references to ''controlled foreign corporation'' for ''foreign controlled foreign corporation.'' The proposed regulations under section 951A would apply by treating each reference to a ''United States shareholder'' as including a reference to an FCUSS and by treating each reference to a ''controlled foreign corporation'' as including a reference to an FCFC.

Because the proposed regulations would apply the same rules under sections 951 and 951A to FCUSSs and FCFCs pursuant to section 951B, the election to close the taxable year of a foreign corporation under proposed § 1.951–1(d)(2) would not be available to FCUSSs with respect to an FCFC because such shareholders cannot own the requisite percentage of stock of an FCFC (more than 50 percent of the vote or value) for a significant ownership variance to occur. The mandatory closing of a foreign corporation's taxable year under proposed § 1.951–1(d)(2), however, is required if a foreign corporation becomes or ceases to be an FCFC for the same reasons described in part II.C of this Explanation of Provisions. The mandatory closing of a foreign corporation's taxable year would include cases in which a CFC becomes an FCFC or an FCFC becomes a CFC to ensure the proper operation of section 951B.

B. Section 960

These proposed regulations would not make any changes to the regulations under section 960. While the determination of a corporate U.S. shareholder's pro rata share of a CFC's subpart F income, tested income, or tested loss has changed, the regulations under section 960 should continue to operate appropriately to determine the foreign income taxes deemed paid by a domestic corporation as a result of its inclusions under sections 951(a)(1) and 951A.

VI. Effect on Other Regulations

A. Section 1.1502–80(j)

Section 1.1502–80(j) provides that, in determining the amount described in former section 951(a)(2)(B) that is attributable to distributions of previously taxed earnings and profits to which section 959(b) applies, members of a consolidated group (as defined in § 1.1502–1(h)) are treated as a single U.S. shareholder for purposes of determining the part of the year during which such shareholder did not own the stock described in former section 951(a)(2)(A). Following the revisions to section 951 in the OBBBA, for taxable years of foreign corporations that begin after December 31, 2025, former section 951(a)(2)(B) does not apply in determining a U.S. shareholder's pro rata share of subpart F income or tested income. As a result, to the extent former section 951(a)(2)(B) is no longer relevant, § 1.1502–80(j) is no longer necessary to address the application of former section 951(a)(2)(B) within a consolidated group with respect to distributions to which section 959(b) applies. Accordingly, the proposed regulations would amend the applicability date in § 1.1502–80(j)(3) to clarify that § 1.1502–80(j) applies only to the extent former section 951(a)(2)(B) is applicable.

B. Section 1.245A–5(e) and (f)

The Treasury Department and the IRS are of the view that, because of the revisions to sections 951 and 951A in the OBBBA, the extraordinary reduction rules in § 1.245A–5(e) and (f) are no longer necessary. Accordingly, under the proposed regulations, the extraordinary reduction rules would not apply for taxable years of foreign corporations beginning after December 31, 2025. *See* proposed § 1.245A–5(k)(3). The proposed regulations would also modify § 1.245A–5(d) (limitation on the section 954(c)(6) exception with respect to extraordinary disposition accounts for lower-tier CFCs) to reflect the revisions to section 951 in the OBBBA. *See* proposed § 1.245A–5(d)(1)(ii).

C. Section 1248 Regulations

In general, under section 1248(a), if a United States person that satisfies certain ownership requirements recognizes gain on a sale or exchange of stock in a foreign corporation, then the gain is included in the gross income of such person as a dividend to the extent of the E&P of the foreign corporation attributable to the stock that accumulated while the United States person held the stock and the corporation was a CFC, taking into account E&P of certain lower-tier foreign corporations but excluding previously taxed earnings and profits. For this purpose, regulations under section 1248 provide rules for determining E&P attributable to stock in a foreign corporation in simple and complex cases. *See* §§ 1.1248–2 and 1.1248–3. The rules addressing complex cases incorporate the principles of § 1.951–1(e)(2) and (3) for purposes of allocating E&P to multiple classes of stock of a foreign corporation. *See* § 1.1248–3(c)(4) and (d)(6).

The determination of a U.S. shareholder's pro rata share of a CFC's subpart F income, tested income, or tested loss under the proposed regulations is intended to be consistent with the manner in which E&P is attributed to stock of a foreign corporation under the rules prescribed in regulations under section 1248. The Treasury Department and the IRS, however, are studying the regulations under section 1248 and revisions to those regulations may be proposed in a separate guidance project. Comments are requested on the extent to which revisions to the regulations under section 1248 are necessary to coordinate with the proposed regulations under sections 951 and 951A.

D. Proposed Regulations on Previously Taxed Earnings and Profits

On December 2, 2024, the Treasury Department and the IRS published proposed regulations under sections 959 and 961 and certain other provisions of the Code regarding previously taxed earnings and profits (89 FR 95362) (2024 proposed PTEP regulations). The 2024 proposed PTEP regulations contain certain rules premised on former section 951 and also proposed revisions to the regulations under section 951. The Treasury Department and the IRS intend to modify the 2024 proposed PTEP regulations to reflect the amendments to sections 951 and 951A in the OBBBA and the rules in these proposed regulations in a separate guidance project.

VII. Transition Rule

A. Application

The proposed regulations would provide rules for the application of the transition rule that are consistent with the rules described in the transition rule notice. *See* proposed § 1.951–4.

For example, the proposed regulations would provide as a general rule that certain dividends are not treated as dividends for purposes of applying former section 951(a)(2)(B) to the extent the dividend does not increase the taxable income of a United States person subject to Federal income tax. *See* proposed § 1.951–4(b). As described in section 3.04 of the transition rule notice, this general rule would apply by reference to the specific shares of stock of the CFC with respect to which a dividend was paid or deemed paid, and for which a U.S. shareholder would otherwise reduce its pro rata share under former section 951(a)(2)(B) absent the application of the transition rule. Accordingly, if a U.S. shareholder acquires shares of stock in a CFC after June 28, 2025, dividends paid with respect to those shares on or before June 28, 2025, and during the taxable year of the CFC that includes such date, are subject to the transition rule even if the U.S. shareholder owned other shares in the CFC on or before June 28, 2025.

The proposed regulations would also define dividends paid or deemed paid, United States person subject to Federal income tax, and taxable income for purposes of the transition rule. *See* proposed § 1.951–4(c) through (e).

In addition, the proposed regulations would provide rules for determining whether a dividend increases taxable income. *See* proposed § 1.951–4(f). The proposed regulations would provide that all applicable provisions of the Code, and the regulations thereunder, are applied before applying, and without regard to, the transition rule. Therefore, for example, to the extent a dividend paid to a controlling domestic shareholder before an extraordinary reduction would be ineligible for the dividends received deduction under section 245A(a) after applying section 245A and § 1.245A–5 without regard to the transition rule, the dividend would be treated as increasing the taxable income of a United States person subject to Federal income tax. The proposed regulations would provide an example demonstrating this result and the consequences that would follow under section 245A.

Finally, the proposed regulations would include the rules on partnerships and S corporations generally described in the transition rule notice, including a safe harbor in the context of certain publicly held partnerships. *See* proposed § 1.951–4(g).

B. Substantiation Requirement

Under section 3.03(4) of the transition rule notice, a U.S. shareholder that reduces its pro rata share of subpart F income or tested income under former section 951(a)(2)(B) as a result of a dividend subject to the transition rule must determine and document that the dividend increased the taxable income of a United States person subject to Federal income tax. The U.S. shareholder is required to provide a statement to the IRS that describes why the U.S. shareholder is entitled to treat such amount as a dividend for purposes of former section 951(a)(2)(B) and how the U.S. shareholder determined such amount increased the taxable income of a United States person subject to Federal income tax.

A commenter on the transition rule notice asserted that the requirement that a U.S. shareholder must determine and document that the dividend increased the taxable income of a United States person subject to Federal income tax is ambiguous and potentially onerous. The commenter noted that the transition rule notice does not explain what level of analysis, substantiation, or third-party information is required to demonstrate that a dividend resulted in an increase to taxable income and indicated that this information would be difficult to obtain for transactions that have already closed. The commenter recommended that the Treasury Department and the IRS eliminate or significantly pare back the requirement where the dividend is required by law to be included in the gross income of a United States person and where no exclusion or deduction could reasonably apply. Alternatively, the commenter suggested adopting a per se rule or safe harbor under which the requirement does not apply to dividends received by certain United States persons for whom inclusion in taxable income is mandatory under the Code and, for all other situations, provide that Federal income tax principles must be analyzed and indicate the type of documentation that is sufficient to demonstrate that the dividend increased taxable income.

The Treasury Department and the IRS are of the view that the substantiation requirement described in the transition rule notice properly requires taxpayers to establish that they are correctly calculating their pro rata share of subpart F income or tested income when applying the transition rule, while adequately prescribing the degree of detail taxpayers must provide. The Treasury Department and the IRS are also of the view that a per se rule or safe harbor rule is not appropriate. For example, in the case of a dividend paid or deemed paid to a United States person for whom inclusion in taxable income is mandatory under the Code (for example, an individual who is a United States citizen), information supporting the determination that the dividend recipient is such a person would satisfy the substantiation requirement. Additionally, a specific description of the types of documentation that taxpayers must provide for substantiation purposes would be overly restrictive. Accordingly, the proposed regulations do not adopt the commenter's recommendations and would include the substantiation requirement described in the transition rule notice. *See* proposed § 1.951–4(h).

VIII. Applicability Dates

The Treasury Department and the IRS expect to finalize the proposed regulations by January 4, 2027. Under section 7805(b)(2), the proposed regulations under sections 951, 951A, and 6038 are generally proposed to apply to taxable years of foreign corporations beginning after December 31, 2025, and to taxable years of U.S. shareholders for which such taxable years of those foreign corporations are relevant. *See* proposed §§ 1.951–1(i)(1), 1.951A–7(a), and 1.6038–2(m).

Under section 70354(c) of the OBBBA, the amendments to the pro rata share rules of section 951(a) made by section 70354(a) of the OBBBA are made effective ''for taxable years of foreign corporations beginning after December 31, 2025.'' However, under section

70323(c) of the OBBBA, the amendments to section 951A made by section 70323(a) of the OBBBA, requiring a U.S. shareholder to include in gross income its net CFC tested income instead of its GILTI inclusion amount, are made effective ''for taxable years beginning after December 31, 2025,'' which the Treasury Department and the IRS believe is best interpreted as referring to the taxable years of a U.S. shareholder. Therefore, in the case of a foreign corporation whose taxable year begins after December 31, 2025, but ends with or within a taxable year of a U.S. shareholder that begins on or before December 31, 2025, former section 951A applies with respect to the U.S. shareholder, with the U.S. shareholder's pro rata shares of the CFC's tested items determined under section 951(a)(2) as amended by the OBBBA. Proposed § 1.951A–7(c) would therefore provide that, in this fact pattern, the U.S. shareholder applies the former version of § 1.951A–1 (which provides for the calculation and inclusion of the U.S. shareholder's GILTI inclusion amount rather than net CFC tested income) with respect to the CFC, but must take into account the amendments to section 951(a)(2) made by the OBBBA in determining the U.S. shareholder's pro rata share of any tested item.

As revised in the proposed regulations, §§ 1.245A–5(e) and (f) and 1.1502–80(j) would not apply with respect to taxable years of foreign corporations beginning after December 31, 2025. *See* proposed §§ 1.245A–5(k)(3) and 1.1502–80(j)(3).

Under section 7805(b)(2), the proposed regulations regarding the transition rule would apply to taxable years of a foreign corporation that either include June 28, 2025, or begin after June 28, 2025, but before the foreign corporation's first taxable year beginning after December 31, 2025. *See* proposed § 1.951–4(i).

Taxpayers may rely on all aspects of the proposed regulations before the date the proposed regulations are finalized, provided a taxpayer and its related parties (within the meaning of sections 267(b) and 707(b)(1)) follow the rules in their entirety and in a consistent manner.

Special Analyses

I. Regulatory Planning and Review—Economic Analysis

The Office of Management and Budget's (OMB) Office of Information and Regulatory Analysis has determined that this proposed regulation is not significant and is not subject to review under section 6(b) of Executive Order 12866. Therefore, a regulatory impact assessment is not required.

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 OMB 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 OMB.

The collections of information in these proposed regulations contain reporting and recordkeeping requirements that enable the IRS to verify that a taxpayer is reporting the correct amount of taxable income. The collections of information will be used by the IRS for tax compliance purposes. The likely respondents are individuals, businesses, and other for-profit institutions.

The collections of information in the proposed regulations are in proposed §§ 1.951–1(d)(2)(i) and (iv), 1.951–4(h), and 1.6038–2(f)(8).

The collections of information in proposed § 1.951–1(d)(2)(i) and (iv) are elective for controlling section 958(a) U.S. shareholders electing to close a CFC's taxable year if a significant ownership variance occurs. The collection of information in proposed § 1.951–1(d)(2)(i) is satisfied by the controlling section 958(a) U.S. shareholders providing notice regarding the election to United States persons that own stock of a CFC during the taxable year that ends on the day on which the CFC's taxable year is treated as closing under proposed § 1.951–1(d)(2), other than those persons required to enter into the binding agreement. The collection of information in proposed § 1.951–1(d)(2)(iv) is satisfied by all controlling section 958(a) U.S. shareholders filing the ''Elective Section 951 Year-Closing Statement'' with a timely filed original Federal income tax return (including extensions) for the taxable year that includes the day the CFC's taxable year is treated as closing under proposed § 1.951–1(d)(2).

The collection of information in proposed § 1.951–4(h)(2) is mandatory for certain United States persons that are entitled to treat certain dividend amounts as a dividend for purposes of former section 951(a)(2)(B) as described in proposed § 1.951–4(h)(2). The collection of information is satisfied by a United States person attaching a statement to Form 5471 that describes how the United States person determined that the dividend increased the taxable income of a United States person that is subject to Federal income tax for the taxable year, applying the rules in proposed § 1.951–4.

The collection of information in proposed § 1.6038–2(f)(8) is mandatory for U.S. shareholders. The collection of information is satisfied by completing Schedules A and B relating to the outstanding stock of a CFC and changes in direct and indirect ownership of the CFC as described in or as prescribed by Form 5471 and its instructions.

These reporting requirements will be included within OMB Control Numbers 1545–0123 for business filers, 1545–0074 for individual filers, 1545–0092 for trust and estate filers and 1545–0047 for tax exempt filers in accordance with the PRA procedures under 5 CFR 1320.10.

The recordkeeping requirements include that taxpayers keep books of account and records that are adequate to permit verification that the reduction in the taxpayer's pro rata share under former section 951(a)(2)(B) was appropriate and that the taxpayer is reporting the correct amount of taxable income. The recordkeeping requirements also include that certain taxpayers enter into a binding agreement with other shareholders as described in part II.D.3 of the Explanation of Provisions.

All recordkeeping requirements will be included within OMB Control Numbers 1545–0123 for business filers, 1545–0074 for individual filers, 1545–0092 for trust and estate filers, and 1545–0047 for tax exempt filers in accordance with the PRA procedures under 5 CFR 1320.10.

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. The Treasury

Department and the IRS have determined that the regulations may affect a substantial number of small entities but 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 issues regarding sections 951 and 951A and related provisions but do not change the economic impact of the existing regulations or impose any new costs on small entities. The proposed regulations would modify some existing reporting requirements as discussed in part II of this Special Analyses, but the modifications are not expected to impose significant costs on any 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 a Public Hearing

Consideration will be given to comments that are submitted timely to the IRS as prescribed in the preamble under the **ADDRESSES** section. In addition to the comments specifically requested in the Explanation of Provisions, the Treasury Department and the IRS request comments on all aspects of the proposed regulations. Any comments submitted will be made available at *www.regulations.gov* or upon request.

A public hearing will be scheduled if requested in writing by any person who 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 and time for the public hearing will be published in the **Federal Register**. Public hearings will be conducted in person with a telephonic option for individuals who wish to attend or testify at the hearing by telephone. Hearings will be made accessible to people with disabilities.

Statement of Availability of IRS Documents

Any IRS Revenue Procedures, Revenue Rulings, Notices, or other guidance cited in this document are published in the Internal Revenue Bulletin (or Cumulative Bulletin) and are available from the Superintendent of Documents, U.S. Government Publishing Office, Washington, DC 20402, or by visiting the IRS website at *www.irs.gov.*

Drafting Information

The principal author of these regulations is James R. Kostura, Office of Associate Chief Counsel (International). However, other personnel from the IRS and the Treasury Department 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 revising the entry for § 1.951–1 and adding entries in numerical order for § 1.951–4 and § 1.951A–1 to read in part as follows:

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

* * * * *

Section 1.951–1 also issued under 26 U.S.C. 951, 951(a)(4), and 7701(a).

Section 1.951–4 also issued under section 70354(c)(2), Pub. L. 119–21, 139 Stat. 72.

Section 1.951A–1 also issued under 26 U.S.C. 951(a)(4) and 951A.

* * * * *

■ **Par. 2.** Section 1.245A–5 is amended by:

■ 1. Revising the last sentence of paragraph (a);

■ 2. Revising paragraph (d)(1)(ii);

■ 3. Revising the second sentence of paragraph (j)(3)(ii)(D);

■ 4. Revising paragraph (k)(1); and

■ 5. Adding paragraphs (k)(3) and (4).

The revisions and additions read as follows:

§ 1.245A–5 Limitation of section 245A deduction and section 954(c)(6) exception.

(a) * * * Paragraph (k) of this section provides the applicability date of this section, including a rule that provides that the extraordinary reduction rules described in paragraphs (e) and (f) of this section do not apply to taxable periods of foreign corporations beginning after December 31, 2025.

* * * * *

(d) * * *

(1) * * *

(ii) The percentage of the upper-tier CFC's subpart F income that would be included in a United States shareholder's income under section 951(a) with respect to the upper-tier CFC's taxable year, determined without regard to the application of section 954(c)(6).

* * * * *

(j) * * *

(3) * * *

(ii) * * *

(D) * * * The percentage of CFC1's subpart F income for its taxable year that would be included in a United States shareholder's income is 100%. * * *

* * * * *

(k) *Applicability date*—(1) *In general.* Except as provided in paragraphs (k)(3) and (4) of this section, this section applies to taxable periods of a foreign corporation ending on or after June 14, 2019, and to taxable periods of section 245A shareholders in which or with which such taxable periods end.

* * * * *

(3) *Phaseout of extraordinary reduction rules.* Paragraphs (b)(2)(ii), (e), and (f) of this section do not apply to taxable periods of foreign corporations beginning after December 31, 2025.

(4) *Modification of extraordinary disposition rules.* Paragraphs (d)(1)(ii)

and (j)(3)(ii)(D) of this section apply to taxable periods of foreign corporations beginning after December 31, 2025, and to taxable periods of section 245A shareholders in which or with which such taxable periods end. For rules that apply to taxable periods of foreign corporations beginning on or before December 31, 2025, see § 1.245A–5 as contained in 26 CFR part 1 edition revised as of April 1, 2026.

■ **Par. 3.** Section 1.901–2 is amended by revising paragraph (f)(6) to read as follows:

§ 1.901–2 Income, war profits, or excess profits tax paid or accrued.

* * * * *

(f) * * *

(6) *Allocation of foreign income taxes in connection with certain elections and status change events.* For rules relating to the allocation of foreign income taxes in connection with elections made pursuant to section 336(e), *see* § 1.336–2(g)(3)(ii). For rules relating to the allocation of foreign income taxes in connection with elections made pursuant to section 338, *see* § 1.338–9(d). For rules relating to the allocation of foreign income taxes in connection with elections made pursuant to § 1.245A–5(e)(3)(i), *see* § 1.245A–5(e)(3)(i)(B) (applicable to taxable periods of foreign corporations beginning before December 31, 2025). For rules relating to the allocation of foreign income taxes in connection with an election pursuant to § 1.951–1(d)(2) or a status change event under § 1.951–1(d)(1), *see* § 1.951–1(d)(3).

* * * * *

■ **Par. 4.** Section 1.951–1 is amended by:

■ 1. Revising paragraphs (a), (b), (d) through (f), and (h); and

■ 2. Adding paragraph (i).

The revisions and addition read as follows:

§ 1.951–1 Amounts included in gross income of United States shareholders.

(a) *Scope.* This section sets forth the rules for determining amounts included in the gross income of a United States shareholder under section 951(a). Paragraph (b) of this section provides the general rule for amounts required to be included in gross income under section 951(a)(1)(A) and (B). Paragraph (c) of this section is reserved. Paragraph (d) of this section provides rules that require or permit the closing of the taxable year of a foreign corporation, which, if applicable, are necessary to determine the CFC year with respect to which a United States shareholder determines its pro rata share of subpart F income. Paragraph (e) of this section prescribes the rules for determining a United States shareholder's pro rata share of subpart F income for a CFC year. Paragraph (f) of this section provides a rule for determining the holding period of an asset (including stock of a controlled foreign corporation). Paragraph (g) of this section defines United States shareholder. Paragraph (h) of this section provides additional definitions. Paragraph (i) of this section provides applicability dates. For rules applying this section to foreign controlled United States shareholders and foreign controlled foreign corporations, see section 951B (generally replacing references in this section to the term ''United States shareholder'' with the term ''foreign controlled United States shareholder'' and the term ''controlled foreign corporation'' with the term ''foreign controlled foreign corporation'').

(b) *In general*—(1) *Section 951(a)(1)(A) inclusions.* Each United States shareholder of a foreign corporation that owns stock in the foreign corporation on any day during a CFC year of the foreign corporation must, for the United States shareholder's taxable year that includes the last day on which the shareholder owns stock in the foreign corporation during the CFC year, include in gross income the United States shareholder's pro rata share (determined under paragraph (e) of this section) of the foreign corporation's subpart F income for the CFC year.

(2) *Section 951(a)(1)(B) inclusions.* Each United States shareholder of a foreign corporation that owns stock in the foreign corporation on the last day of a CFC year on which the foreign corporation is a controlled foreign corporation must, for the United States shareholder's taxable year that includes the last day on which the shareholder owns stock in the foreign corporation during the CFC year, include in gross income the amount determined under section 956 with respect to the United States shareholder for the CFC year, but only to the extent not excluded from gross income under section 959(a)(2).

(3) *Personal holding company determination.* For purposes of determining whether a United States shareholder that is a domestic corporation is a personal holding company under section 542 and § 1.542–1, the character of the amount includible in gross income of such domestic corporation under this paragraph (b) is determined as if such amount were realized directly by such domestic corporation from the source from which it is realized by the controlled foreign corporation.

(4) *Cross references. See* § 1.957–2(a) for a special limitation on the amount of subpart F income in the case of a controlled foreign corporation described in section 957(b) (involving insurance income). *See* section 970(a) and § 1.970–1 for rules that reduce subpart F income of controlled foreign corporations that are export trade corporations.

* * * * *

(d) *Certain taxable year determinations*—(1) *Required closing of foreign corporation's taxable year*—(i) *In general.* If a status change event occurs with respect to a foreign corporation, the taxable year of the foreign corporation closes for all purposes of the Internal Revenue Code (and, therefore, as to all shareholders of the foreign corporation) under this paragraph (d)(1) as of the end of the day on which the status change event occurs, unless the taxable year otherwise closes as of such day under another provision of the Internal Revenue Code.

(ii) *Status change event.* A *status change event* occurs if a foreign corporation becomes or ceases to be a controlled foreign corporation. For purposes of paragraph (d)(1)(i) of this section, in the case of a foreign corporation becoming a controlled foreign corporation, the status change event occurs on the last day that the foreign corporation is not a controlled foreign corporation, and in the case of a foreign corporation ceasing to be a controlled foreign corporation, the status change event occurs on the last day that the foreign corporation is a controlled foreign corporation.

(iii) *Special rules for domestic partnerships and options.* Solely for purposes of determining whether a status change event occurs with respect to a foreign corporation—

(A) § 1.958–1(d)(1) is applied without regard to the exceptions in § 1.958–1(d)(2)(i) and (ii), and

(B) Section 318(a)(4) and § 1.958–2(e) do not apply.

(2) *Elective closing of controlled foreign corporation's taxable year*—(i) *In general.* If a significant ownership variance occurs with respect to a controlled foreign corporation, all the controlling section 958(a) U.S. shareholders of the controlled foreign corporation may elect to close the controlled foreign corporation's taxable year for all purposes of the Internal Revenue Code (and, therefore, as to all shareholders of the controlled foreign corporation) under this paragraph (d)(2) as of the end of the day on which the

significant ownership variance occurs, unless the taxable year otherwise closes as of such day under another provision of the Internal Revenue Code. If the election is made, all persons that own stock of the controlled foreign corporation (regardless of whether they are controlling section 958(a) U.S. shareholders) must file their respective Federal income tax returns and information returns consistently with the election. The closing of the controlled foreign corporation's taxable year is treated as a change in taxable year for purposes of the notice requirement in § 1.964–1(c)(3)(iii), treating the controlling section 958(a) U.S. shareholders as the controlling domestic shareholders of the foreign corporation for this purpose. The notice described in § 1.964–1(c)(3)(iii) must be provided to all United States persons that own stock of the controlled foreign corporation during the taxable year that ends on the day on which the controlled foreign corporation's taxable year closes under this paragraph (d)(2), other than those persons required to enter into the binding agreement described in paragraph (d)(2)(iv)(B) of this section.

(ii) *Significant ownership variance*—(A) *In general.* A *significant ownership variance* occurs if, taking into account all specified transfers that occur pursuant to the same plan during the same taxable year of a controlled foreign corporation (such taxable year determined without regard to this paragraph (d)(2)), the percentage of the outstanding stock of the controlled foreign corporation owned by one or more section 958(a) U.S. shareholders of the controlled foreign corporation decreases, in the aggregate, by more than 50 percentage points (by vote or value), as compared to the percentage of stock of the controlled foreign corporation owned by those section 958(a) U.S. shareholders immediately before the first such specified transfer. For purposes of paragraph (d)(2)(i) of this section, the significant ownership variance occurs on the day that the last specified transfer taken into account in the significant ownership variance occurs.

(B) *Specified transfer.* A *specified transfer* is—

(*1*) A sale, exchange, or any other disposition of one or more shares of stock of a foreign corporation or of a partnership interest by the same person on the same date, including a redemption of stock within the meaning of section 317(b) or a change in a partner's interest in a partnership as a result of a distribution or redemption, or

(*2*) An issuance of one or more shares of stock of a foreign corporation, an issuance of a partnership interest, or a change in a partner's interest in a partnership as a result of a contribution of property or services to the partnership, in each case occurring on the same date.

(C) *Special rules for related persons and certain reorganizations.* Solely for purposes of applying paragraph (d)(2)(ii)(A) of this section—

(*1*) The total percentage of the outstanding stock of the controlled foreign corporation owned by one or more section 958(a) U.S. shareholders is not treated as decreasing to the extent that, taking into account all the specified transfers referred to in paragraph (d)(2)(ii)(A) of this section, a United States person that is a related person, immediately following the last such specified transfer, with respect to any section 958(a) U.S. shareholder whose percentage of ownership of stock of the controlled foreign corporation decreased (determined without regard to this paragraph (d)(2)(ii)(C)(*1*)), has an increase in its percentage of ownership of stock of the controlled foreign corporation; and

(*2*) The transferor corporation and the resulting corporation (as defined in § 1.368–2(m)(1)) in a reorganization described under section 368(a)(1)(F) are treated as the same corporation.

(iii) *Certain United States shareholders*—(A) *Section 958(a) U.S. shareholders.* The *section 958(a) U.S. shareholders* of a controlled foreign corporation are the United States shareholders that own stock of the controlled foreign corporation.

(B) *Controlling section 958(a) U.S. shareholders.* The *controlling section 958(a) U.S. shareholders* of a controlled foreign corporation are the section 958(a) U.S. shareholders (or, if applicable, single section 958(a) U.S. shareholder) whose percentage of ownership of stock of the controlled foreign corporation decreases as part of a significant ownership variance.

(iv) *Time and manner of making election*—(A) *Election by controlling section 958(a) U.S. shareholders.* An election pursuant to this paragraph (d)(2) is made and effective if each controlling section 958(a) U.S. shareholder files the statement described in paragraph (d)(2)(v) of this section with its timely filed original Federal income tax return (including extensions) for the taxable year that includes the day the controlled foreign corporation's taxable year closes under this paragraph (d)(2). If a controlling section 958(a) U.S. shareholder is a member of a consolidated group (within the meaning of § 1.1502–1(h)), the agent for the group (within the meaning of § 1.1502–77(c)(1)) makes the election by filing the statement described in paragraph (d)(2)(v) of this section on behalf of such member.

(B) *Binding agreement.* Before the filing of the statement described in paragraph (d)(2)(v) of this section, all the controlling section 958(a) U.S. shareholders and all other section 958(a) U.S. shareholders of the controlled foreign corporation (if any) that own stock of the controlled foreign corporation on any day of the controlled foreign corporation's taxable year up to and including the day that the significant ownership variance occurs must enter into a written, binding agreement requiring the controlling section 958(a) U.S. shareholders to make the election described in this paragraph (d)(2). Each party to this binding agreement must be able to present the agreement to the Internal Revenue Service for inspection upon request. No binding agreement is required under this paragraph (d)(2)(iv)(B) if there is a single controlling section 958(a) U.S. shareholder and there is no other section 958(a) U.S. shareholder of the controlled foreign corporation that owns stock of the controlled foreign corporation on any day of the controlled foreign corporation's taxable year up to and including the day that the significant ownership variance occurs. In the case of a section 958(a) U.S. shareholder that owns stock of the controlled foreign corporation indirectly through one or more partnerships, the partnership that directly holds the stock of the controlled foreign corporation may enter into the binding agreement on behalf of the United States shareholder partner provided that, before the due date of the partner's original Federal income tax return, including extensions, the partner delegated the authority to the partnership to enter into the binding agreement pursuant to a written partnership agreement (within the meaning of § 1.704–1(b)(2)(ii)(*h*)).

(v) *Form and content of statement.* The statement required by paragraph (d)(2)(iv) of this section must be titled ''Elective Section 951 Year-Closing Statement.'' The statement must—

(A) Identify (by name and tax identification number, if any) the controlled foreign corporation, the controlling section 958(a) U.S. shareholders, and each other section 958(a) U.S. shareholder of the controlled foreign corporation that is party to the binding agreement referred to in paragraph (d)(2)(iv)(B) of this section;

(B) Describe the significant ownership variance to which the election applies and provide the date on which the controlled foreign corporation's taxable year closes;

(C) State that each controlling section 958(a) U.S. shareholder and all other section 958(a) U.S. shareholders of the controlled foreign corporation described in paragraph (d)(2)(iv)(B) of this section have entered into a written, binding agreement to elect to close the controlled foreign corporation's taxable year in accordance with paragraph (d)(2)(iv)(B) of this section; and

(D) Be filed in the manner, if any, prescribed by forms, publications, or other guidance published in the Internal Revenue Bulletin.

(vi) *Consistency requirement.* If significant ownership variances occur with respect to multiple controlled foreign corporations pursuant to a plan or series of related transactions, the election described in this paragraph (d)(2) may be made only if it is made with respect to each of the controlled foreign corporations.

(3) *Foreign income taxes*—(i) *Allocation to taxable years.* If a foreign corporation's taxable year closes under paragraph (d)(1) or (d)(2) of this section and the foreign corporation's taxable year under foreign law does not close at the end of the date on which the foreign corporation's taxable year closes (the closing date), a portion of the foreign income tax with respect to such foreign taxable year that accrues in the taxable year following the closing date is allocated to the taxable year ending with the closing date. The allocation is made based on the portion of the taxable income of the foreign corporation (as determined under foreign law) for the foreign taxable year that is attributable under the principles of § 1.1502–76(b) (without regard to § 1.1502–76(b)(2)(ii)) to the period of the foreign taxable year ending with the closing date. This paragraph (d)(3) applies to all foreign income taxes for which the foreign corporation is the taxpayer under § 1.901–2(f) (other than withholding taxes as defined in section 901(k)(1)(B)). Foreign income taxes allocated to a taxable year under this paragraph (d)(3) are treated as accrued by the foreign corporation as of the close of that taxable year for all purposes of the Internal Revenue Code except for section 986(a).

(ii) *Allocation and apportionment to statutory and residual groupings.* The portion of the foreign income tax allocated under paragraph (d)(3)(i) of this section to the taxable year ending with the closing date is allocated and apportioned to statutory and residual groupings under § 1.861–20 by treating the foreign taxable income attributed under paragraph (d)(3)(i) of this section to the period of the foreign taxable year ending with the closing date as the foreign income included in the base on which the tax is imposed. The portion of the foreign income tax that remains in the taxable year following the closing date is allocated and apportioned to statutory and residual groupings under § 1.861–20 by treating the remaining foreign taxable income as the foreign income included in the base on which the tax is imposed.

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

(i) *Example 1: Status change event*—(A) *Facts.* FC is a foreign corporation with a calendar taxable year. As of January 1 of Year 1, 100 percent of the stock of FC is owned by USP, a domestic corporation. On June 30 of Year 1, USP sells all its stock in FC to Individual A, a nonresident alien individual.

(B) *Analysis.* Under paragraph (f)(1) of this section, USP owns the stock of FC through June 30 of Year 1. Individual A owns the stock of FC on July 1 of Year 1. FC is therefore a controlled foreign corporation through June 30 of Year 1 and is not a controlled foreign corporation on July 1 of Year 1. Under paragraph (d)(1)(ii) of this section, a status change event occurs with respect to FC on June 30 of Year 1, which is the last day that FC is a controlled foreign corporation. Therefore, under paragraph (d)(1)(i) of this section, the taxable year of FC closes for all purposes of the Internal Revenue Code as of the end of the day on June 30 of Year 1.

(ii) *Example 2: Significant ownership variance*—(A) *Facts.* The facts are the same as in paragraph (d)(4)(i)(A) of this section (*Example 1*), except that Individual A is a United States citizen. USP and Individual A are not related persons.

(B) *Analysis.* Paragraph (d)(1) of this section does not apply to the sale of stock of FC by USP to Individual A because the sale does not result in FC ceasing to be a controlled foreign corporation. Under paragraph (d)(2)(ii)(B) of this section, the sale of stock of FC by USP to Individual A is a specified transfer. Under paragraph (d)(2)(ii)(B) of this section, USP is a section 958(a) U.S. shareholder of FC prior to the sale. Under paragraph (f)(1) of this section, USP owns the stock of FC through June 30 of Year 1, and Individual A owns the stock of FC on July 1 of Year 1. Under paragraph (d)(2)(ii)(A) of this section, USP's sale of all the stock of FC to Individual A results in a significant ownership variance that occurs on June 30 of Year 1. A significant ownership variance occurs because, taking into account the sale, the percentage of the outstanding stock of FC owned by USP decreases, in the aggregate, by more than 50 percentage points (by vote or value), as compared to the percentage of stock of FC owned by USP immediately before the sale (from 100 percent to 0 percent). Under paragraph (d)(2)(iii)(B) of this section, USP is the single controlling section 958(a) U.S. shareholder of FC. Therefore, pursuant to paragraph (d)(2)(i) of this section, USP may elect to close the taxable year of FC for all purposes of the Internal Revenue Code as of the end of the day on June 30 of Year 1.

(iii) *Example 3: Transfer between related persons*—(A) *Facts.* The facts are the same as in paragraph (d)(4)(ii)(A) of this section (*Example 2*), except that USP and Individual A are related persons.

(B) *Analysis.* Paragraph (d)(1) of this section does not apply to the sale of stock of FC by USP to Individual A because the sale does not result in FC ceasing to be a controlled foreign corporation. Under paragraph (d)(2)(ii)(B) of this section, the sale of stock of FC by USP to Individual A is a specified transfer. Under paragraph (d)(2)(iii)(A) of this section, USP is a section 958(a) U.S. shareholder of FC prior to the sale. Under paragraph (f)(1) of this section, USP owns the stock of FC through June 30 of Year 1, and Individual A owns the stock of FC on July 1 of Year 1. Under paragraph (d)(2)(ii)(C) of this section, solely for purposes of applying paragraph (d)(2)(ii)(A) of this section, the total percentage of the outstanding stock of FC owned by one or more section 958(a) U.S. shareholders is not treated as decreasing as a result of the sale because Individual A is a United States person that is a related person, immediately following the sale, with respect to USP, and the sale results in an increase in Individual A's percentage of ownership of stock of FC by 100 percent (entirely offsetting the 100 percent decrease in USP's percentage of ownership of stock of FC). Therefore, the sale does not give rise to a significant ownership variance and USP may not elect to close the taxable year of FC.

(e) *Pro rata share of subpart F income defined*—(1) *Overview.* This paragraph (e) determines a United States shareholder's pro rata share of a controlled foreign corporation's subpart F income for a CFC year. Paragraph (e)(2) of this section contains the rules for determining a United States shareholder's pro rata share of subpart F income. Paragraph (e)(3) of this section sets forth an anti-abuse rule, and paragraph (e)(4) of this section contains examples.

(2) *In general.* A United States shareholder's pro rata share of a controlled foreign corporation's subpart F income for a CFC year is the portion of the subpart F income attributable to the stock of the foreign corporation that the United States shareholder owns during the period of the CFC year in which the United States shareholder owns the stock, the shareholder is a United States shareholder of the foreign corporation, and the foreign corporation is a controlled foreign corporation, as determined under the rules of this paragraph (e)(2).

(i) *One class of stock with constant number of shares outstanding*—(A) *Daily proration.* Subject to paragraph (e)(2)(i)(B) of this section, if the controlled foreign corporation has only one class of stock outstanding at all times during the CFC year and there is no change in the number of outstanding shares of the controlled foreign corporation during the CFC year, a United States shareholder's pro rata share of the controlled foreign corporation's subpart F income is equal to the subpart F income of the controlled foreign corporation for the CFC year multiplied by the product of—

(*1*) A fraction, the numerator of which is the number of shares of the controlled foreign corporation the United States shareholder owned during the CFC year, and the denominator of which is the number of shares of the controlled foreign corporation outstanding for the CFC year, and

(*2*) A fraction, the numerator of which is the number of days the United States shareholder owned the shares of the controlled foreign corporation while a United States shareholder of the foreign corporation and while the foreign corporation was a controlled foreign corporation during the CFC year, and the denominator of which is the number of days in the CFC year.

(B) *Stock with different ownership periods during CFC year*—(*1*) In general. If a United States shareholder owns shares in more than one CFC year block during a CFC year (for example, because the United States shareholder acquires or disposes of a portion of its shares during the CFC year), paragraph (e)(2)(i)(A) of this section is applied separately to each CFC year block, and the United States shareholder's pro rata share of the controlled foreign corporation's subpart F income for the CFC year is equal to the total amount determined with respect to all of its CFC year blocks. *See* paragraph (e)(4)(iii) of this section (*Example 2*).

(*2*) *Definition of CFC year block.* The term CFC year block means a group of shares within a class of stock of a controlled foreign corporation that a United States shareholder owns for the same period during a CFC year.

(ii) *More than one class of stock with constant number of shares outstanding in each class.* If a controlled foreign corporation has more than one class of stock outstanding during a CFC year and there is no change in the number of outstanding shares in any class of the controlled foreign corporation's stock during the CFC year, paragraph (e)(2)(i) of this section is applied separately to each class of stock after first allocating the controlled foreign corporation's subpart F income for the CFC year among the classes of stock. For this purpose, the amount of subpart F income for the CFC year allocated to a class of stock of a controlled foreign corporation is the amount that bears the same ratio to the corporation's subpart F income for the CFC year as the amount of the corporation's allocable earnings and profits that would be distributed with respect to the class of stock bears to the total amount of the corporation's allocable earnings and profits that would be distributed with respect to all the stock of the corporation if all the allocable earnings and profits of the corporation for the CFC year (not reduced by actual distributions during the year) were distributed (hypothetical distribution) on the last day of the CFC year.

(A) *Definition of allocable earnings and profits.* The term allocable earnings and profits means, with respect to a controlled foreign corporation for a CFC year, the amount that is the greater of—

(*1*) The earnings and profits of the corporation for the CFC year determined under section 964, and

(*2*) The sum of the subpart F income (as determined under section 952 after the application of section 951A(b)(2)(B)(ii) and § 1.951A–6(b)) of the corporation for the CFC year and the tested income of the corporation for the CFC year.

(B) *Hypothetical distribution analysis.* The amount of the controlled foreign corporation's allocable earnings and profits distributed in the hypothetical distribution with respect to each class of stock is determined based on the distribution rights of the stock during the CFC year. Subject to paragraphs (e)(2)(ii)(C) and (D), and (e)(3), of this section, the distribution rights of a class of stock are determined taking into account all facts and circumstances related to the economic rights and interest in the allocable earnings and profits of the corporation of each class, including the terms of the class of stock, any agreement among the shareholders and, if and to the extent appropriate, the relative fair market value of shares of stock. For purposes of this paragraph (e)(2)(ii)(B), facts and circumstances do not include actual distributions (including distributions by redemption) or any amount treated as a dividend under any other provision of subtitle A of the Internal Revenue Code (for example, under section 78, 356(a)(2), 367(b), or 1248) made during the CFC year.

(C) *Special rules*—(*1*) *Redemptions, liquidations, and returns of capital.* No amount of allocable earnings and profits is distributed in the hypothetical distribution with respect to a particular class of stock based on the terms of the class of stock of the controlled foreign corporation or any agreement or arrangement with respect thereto that would result in a redemption (even if such redemption would be treated as a distribution of property to which section 301 applies pursuant to section 302(d)), a distribution in liquidation, or a return of capital.

(*2*) *Certain cumulative preferred stock.* If a controlled foreign corporation has outstanding a class of redeemable preferred stock with cumulative dividend rights and dividend arrearages on such stock do not compound at least annually at a rate that equals or exceeds the applicable Federal rate (as defined in section 1274(d)(1)) that applies on the date the stock is issued for the term from such issue date to the mandatory redemption date based on a comparable compounding assumption (the relevant AFR), the amount of the corporation's allocable earnings and profits distributed in the hypothetical distribution with respect to the class of stock may not exceed the amount of dividends actually paid during the CFC year with respect to the class of stock plus the present value at the end of the CFC year of the unpaid current dividends with respect to the class determined using the relevant AFR and assuming the dividends will be paid at the mandatory redemption date. For purposes of this paragraph (e)(2)(ii)(C)(*2*), if the class of preferred stock does not have a mandatory redemption date, the mandatory redemption date is the date that the class of preferred stock is expected to be redeemed based on all facts and circumstances.

(*3*) *Dividend arrearages.* If there is an arrearage in dividends for prior taxable years with respect to a class of preferred stock of a controlled foreign corporation, an amount of the corporation's allocable earnings and profits is distributed in the hypothetical distribution to the class of preferred stock by reason of the arrearage only to the extent the arrearage exceeds the accumulated earnings and profits of the controlled foreign corporation remaining from prior CFC years beginning after December 31, 1962, as of the beginning of the CFC year, or the date on which such stock was issued, whichever is later (the applicable date). If there is an arrearage in dividends for prior CFC years with respect to more than one class of preferred stock, the previous sentence is applied to each class in order of priority, except that the accumulated earnings and profits remaining after the applicable date are reduced by the allocable earnings and profits necessary to satisfy arrearages with respect to classes of stock with a higher priority. For purposes of this paragraph (e)(2)(ii)(C)(*3*), the amount of any arrearage with respect to stock described in this paragraph (e)(2)(ii)(C)(*3*) is determined in the same manner as the present value of unpaid current dividends on such stock under paragraph (e)(2)(ii)(C)(*2*) of this section.

(D) *Restrictions or other limitations on distributions*—(*1*) *In general.* A restriction or other limitation on distributions of an amount of earnings and profits by a controlled foreign corporation is not taken into account in determining the amount of the corporation's allocable earnings and profits distributed in the hypothetical distribution to a class of stock of the controlled foreign corporation.

(*2*) *Definition of restriction or other limitation.* For purposes of paragraph (e)(2)(ii)(D)(*1*) of this section, a restriction or other limitation on distributions includes any limitation that has the effect of limiting the distribution of an amount of earnings and profits by a controlled foreign corporation with respect to a class of stock of the corporation, other than currency or other restrictions or limitations imposed under the laws of any foreign country as provided in section 964(b).

(*3*) *Exception for certain preferred distributions.* For purposes of paragraph (e)(2)(ii)(D)(*1*) of this section, the right to receive periodically a fixed amount (whether determined by a percentage of par value, a reference to a floating coupon rate, a stated return expressed in terms of a certain amount of U.S. dollars or foreign currency, or otherwise) with respect to a class of stock the distribution of which is a condition precedent to a further distribution of earnings and profits that year with respect to any class of stock (not including a distribution in partial or complete liquidation) is not a restriction or other limitation on the distribution of earnings and profits by a controlled foreign corporation.

(*4*) *Illustrative list of restrictions and limitations.* Except as provided in paragraph (e)(2)(ii)(D)(*3*) of this section, restrictions or other limitations on distributions include, but are not limited to—

(*i*) An arrangement that restricts the ability of a controlled foreign corporation to pay dividends on a class of stock of the corporation until a condition or conditions are satisfied (for example, until another class of stock is redeemed);

(*ii*) A loan agreement entered into by a controlled foreign corporation that restricts or otherwise affects the ability to make distributions on its stock until certain requirements are satisfied; or

(*iii*) An arrangement that conditions the ability of a controlled foreign corporation to pay dividends to its shareholders on the financial condition of the corporation.

(iii) *Changes in number of shares outstanding.* If the number of shares within any class of stock of a controlled foreign corporation outstanding on each day of a CFC year changes (for example, because of an issuance of new shares or a redemption of outstanding shares), a United States shareholder's pro rata share of subpart F income is determined under the rules provided in paragraphs (e)(2)(i) and (ii) of this section as modified by this paragraph (e)(2)(iii).

(A) *Weighted average share count.* For purposes of applying paragraph (e)(2)(i) of this section, a United States shareholder's pro rata share of subpart F income is determined by substituting a weighted average share count for the number of the controlled foreign corporation's shares outstanding during the CFC year, which is equal to the sum of the number of shares outstanding on each day of the CFC year divided by the number of days in the CFC year.

(B) *Multiple classes of stock.* For purposes of applying paragraph (e)(2)(ii) of this section, a controlled foreign corporation's subpart F income for the CFC year is allocated among classes of stock based on the allocable earnings and profits that would be distributed to a class of stock in the hypothetical distribution if a weighted average share count of the class was outstanding on each day of the CFC year and, thus, on the last day of the CFC year when the hypothetical distribution occurs.

(3) *Transactions and arrangements with a principal purpose of changing pro rata shares.* Appropriate adjustments must be made to the allocation of allocable earnings and profits that would be distributed (without regard to this paragraph (e)(3)) in a hypothetical distribution with respect to any share of stock to disregard the effect on the hypothetical distribution of any transaction or arrangement that is undertaken as part of a plan a principal purpose of which is the avoidance of Federal income taxation by changing the amount of allocable earnings and profits that would be distributed in any hypothetical distribution with respect to such share. This paragraph (e)(3) also applies for purposes of the pro rata share rules described in § 1.951A–1(d) that reference this paragraph (e).

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

(i) *Facts.* Except as otherwise stated, the following facts are assumed for purposes of the examples:

(A) FC1 is a controlled foreign corporation.

(B) USP1 and USP2 are domestic corporations that are United States shareholders of FC1.

(C) Individual A is a nonresident alien individual, and FC2 is a foreign corporation that is not a controlled foreign corporation.

(D) All persons use the calendar year as their taxable year.

(E) Year 1 has 365 days.

(F) Any ownership of stock of FC1 by any shareholder is for all of Year 1.

(G) The common shareholders of FC1 are entitled to dividends when declared by FC1's board of directors.

(H) There are no accrued but unpaid dividends with respect to preferred shares, the preferred stock is not described in paragraph (e)(2)(ii)(C)(*2*) of this section, and common shares have positive liquidation value.

(I) There are no other facts and circumstances related to the economic rights and interest of any class of stock in the allocable earnings and profits of a foreign corporation, and no transaction or arrangement was entered into as part of a plan a principal purpose of which is the avoidance of Federal income taxation.

(J) FC1 has neither tested income nor tested loss.

(K) None of the transactions described constitute a status change event or a significant ownership variance.

(ii) *Example 1: One class of stock with constant number of shares outstanding*—(A) *Facts.* FC1 has outstanding 100 shares of one class of stock. USP1 owns 60 shares of FC1. USP2 owns 40 shares of FC1. For Year 1, FC1 earns $100x of subpart F income.

(B) *Analysis.* FC1 has one class of stock and the number of shares outstanding does not change during Year 1, which is a CFC year. Therefore, USP1's and USP2's pro rata shares of FC1's subpart F income for the CFC year are determined under paragraph (e)(2)(i) of this section. For Year 1, USP1's pro rata share of FC1's subpart F income is $60x, which is equal to $100x of subpart F income multiplied by the product of two fractions. For the first fraction, the numerator is the number of shares that USP1 owned (60) and the denominator is the number of shares of FC1 outstanding (100) (60 percent). For the second fraction, the numerator is the number of days in the CFC year that USP1 owned the shares while USP1 was a United States shareholder of FC1 and FC1 was a controlled foreign corporation (365) and the denominator is the number of days in the CFC year of FC1 (365) (100 percent). For Year 1, USP2's pro rata share of FC1's subpart F income is $40x, which is equal to $100x of subpart F income multiplied by the product of two fractions. For the first fraction, the numerator is the number of shares that USP2 owned (40) and the denominator is the number of shares of FC1 outstanding (100) (40 percent). For the second fraction, the numerator is the number of days in the CFC year that USP2 owned the shares while USP2 was a United States shareholder of FC1 and FC1 was a controlled foreign corporation (365) and the denominator is the number of days in the CFC year of FC1 (365) (100 percent).

(iii) *Example 2: Single class of stock with constant number of shares outstanding during the CFC year, and a share transfer during the CFC Year*—(A) *Facts.* The facts are the same as in paragraph (e)(4)(ii)(A) of this section (*Example 1*), except that on June 30 of Year 1 USP2 sells 20 shares of FC1 to Individual A.

(B) *Analysis.* The determination of USP1's pro rata share of the subpart F income of FC1 is the same as in paragraph (e)(4)(ii)(B) of this section (the analysis in *Example 1*). Under paragraph (e)(2)(i)(B) of this section, USP2's pro rata share of FC1's subpart F income is determined by reference to the two separate CFC year blocks that USP2 owns during the CFC year. USP2 owns 40 shares of FC1 from January 1 through June 30 of the CFC year (the first CFC year block), and 20 shares of FC1 from July 1 through December 31 of the CFC year (the second CFC year block). USP2's pro rata share of subpart F income with respect to the first CFC year block is $19.84x, which is equal to $100x of subpart F income multiplied by the product of two fractions. For the first fraction, the numerator is the number of shares USP2 owned in the first CFC year block (40) and the denominator is the number of shares of FC1 outstanding (100) (40 percent). For the second fraction, the numerator is the number of days in the CFC year that USP2 owned the shares in the first CFC year block while USP2 was a United States shareholder of FC1 and FC1 was a controlled foreign corporation (181) and the denominator is the number of days in the CFC year (365) (49.6 percent). USP2's pro rata share of subpart F income with respect to the second CFC year block is $10.08x, which is equal to $100x of subpart F income multiplied by the product of two fractions. For the first fraction, the numerator is the number of shares USP2 owned in the second CFC year block (20) and the denominator is the number of shares of FC1 outstanding (100) (20 percent). For the second fraction, the numerator is the number of days in the CFC year that USP2 owned the shares in the second CFC year block while USP2 was a United States shareholder of FC1 and FC1 was a controlled foreign corporation (184) and the denominator is the number of days in the CFC year (365) (50.4 percent). Accordingly, for Year 1, USP2's pro rata share of the subpart F income of FC1 is $29.92x ($19.84x + $10.08x).

(iv) *Example 3: Common and preferred stock*—(A) *Facts.* FC1 has outstanding 70 shares of common stock and 30 shares of 4% nonparticipating, voting preferred stock with a par value of $10x per share. USP1 owns all the common shares. Individual A owns all the preferred shares. For Year 1, FC1 has $100x of earnings and profits and $50x of subpart F income.

(B) *Analysis.* FC1 has more than one class of stock and the number of shares outstanding in each class does not change during Year 1, which is a CFC year. Therefore, USP1's pro rata share of FC1's subpart F income for the CFC year is determined under paragraph (e)(2)(i) of this section after applying the hypothetical distribution in paragraph (e)(2)(ii) of this section to determine the amount of subpart F income allocated to the common and preferred stock of FC1. The distribution rights of the preferred shares are not a restriction or other limitation within the meaning of paragraph (e)(2)(ii)(D) of this section. Under paragraph (e)(2)(ii) of this section, the amount of FC1's allocable earnings and profits distributed in the hypothetical distribution with respect to Individual A's preferred shares is $12x (0.04 × $10x × 30) and with respect to USP1's common shares is $88x ($100x − $12x). Accordingly, under paragraph (e)(2)(ii) of this section, $6x of FC1's subpart F income is allocated to the preferred shares ($50x × ($12x/$100x)), and $44x of FC1's subpart F income is allocated to the common shares ($50x × ($88x/$100x)) for Year 1. As a result, under paragraph (e)(2)(i) of this section, because USP1 owned all the common shares, USP1's pro rata share of FC1's subpart F income is $44x for Year 1.

(v) *Example 4: Mid-year redemption of preferred stock*—(A) *Facts.* The facts are the same as in paragraph (e)(4)(iv)(A) of this section (*Example 3*), except on June 30 of Year 1, FC1 redeems 15 shares of the preferred stock owned by Individual A.

(B) *Analysis.* The redemption of the 15 shares of preferred stock of FC1 owned by Individual A is not taken into account in determining the distribution rights of the preferred stock under paragraph (e)(2)(ii)(B) of this section, and the distribution rights of the preferred shares are not a restriction or other limitation within the meaning of paragraph (e)(2)(ii)(D) of this section. Under paragraph (e)(2)(ii) of this section, the amount of FC1's allocable earnings and profits distributed in the hypothetical distribution is determined based on the allocable earnings and profits that would be distributed with respect to the preferred shares if a weighted average share count of preferred shares was outstanding on each day of the CFC year and, thus, on the last day of the CFC year. The weighted average share count of the preferred shares is 22.44 ((15 × 365 + 15 × 181)/365). The allocable earnings and profits that would be distributed to Individual A's preferred shares based on the weighted average share count is $8.98x (0.04 × $10x × 22.44). The allocable earnings and profits that would be distributed with respect to USP1's common shares is $91.02x ($100x − $8.98x). Accordingly, under paragraph (e)(2)(ii) of this section, $45.51x of FC1's subpart F income is allocated to USP1's common shares ($50x × ($91.02x/$100x)), and USP1's pro rata share of FC1's subpart F income under paragraph (e)(2)(i) of this section is $45.51 for Year 1.

(vi) *Example 5: Restriction based on cumulative income*—(A) *Facts.* FC1 has outstanding 10 shares of common stock and 400 shares of 2% nonparticipating, voting preferred stock with a par value of $1x per share. USP1 owns all the common shares. FC2 owns all the preferred shares. USP1 and FC2 cause the governing documents of FC1 to provide that no dividends may be paid to the common shareholders until FC1 cumulatively earns $100,000x of income. For Year 1, FC1 has $50x of earnings and profits and $50x of subpart F income.

(B) *Analysis.* The agreement restricting FC1's ability to pay dividends to common shareholders until FC1 cumulatively earns $100,000x of income is a restriction or other limitation within the meaning of paragraph (e)(2)(ii)(D) of this section. Therefore, the restriction is disregarded for purposes of determining the amount of FC1's allocable earnings and profits distributed in the hypothetical distribution to a class of stock. The distribution rights of the preferred shares are not a restriction or other limitation within the meaning of paragraph (e)(2)(ii)(D) of this section. Under paragraph (e)(2)(ii) of this section, the amount of FC1's allocable earnings and profits distributed in the hypothetical distribution with respect to FC2's preferred shares is $8x (0.02 × $1x × 400) and with respect to USP1's common shares is $42x ($50x − $8x). Accordingly, under paragraphs (e)(2)(i) and (ii) of this section, USP1's pro rata share of FC1's subpart F income is $42x for Year 1 ($50x × ($42x/$50x)).

(vii) *Example 6: Redemption rights*—(A) *Facts.* FC1 has outstanding 40 shares of common stock and 10 shares of 4% nonparticipating, preferred stock with a par value of $50x per share. Pursuant to the terms of the preferred stock, FC1 has the right to redeem the preferred stock at any time, in whole or in part. FC2 owns all the preferred shares. USP1, wholly owned by FC2, owns all the common shares. Pursuant to the governing documents of FC1, no dividends may be paid to the common shareholders while the preferred stock is outstanding. For Year 1, FC1 has $100x of earnings and profits and $100x of subpart F income.

(B) *Analysis.* The agreement restricting FC1's ability to pay dividends to common shareholders while the preferred stock is outstanding is a restriction or other limitation within the meaning of paragraph (e)(2)(ii)(D) of this section. Therefore, the restriction is disregarded for purposes of determining the amount of FC1's allocable earnings and profits distributed in the hypothetical distribution to a class of stock. Under paragraph (e)(2)(ii)(C)(*1*) of this section, no amount of allocable earnings and profits is distributed in the hypothetical distribution to the preferred shareholders in respect of FC1's right to redeem the preferred shares. This is the case regardless of the restriction on paying dividends to the common shareholders while the preferred stock is outstanding, and regardless of the fact that a redemption of FC2's preferred shares would be treated as a distribution to which section 301 applies under section 302(d) (due to FC2's constructive ownership of the common shares). Thus, neither the restriction on paying dividends to the common shareholders while the preferred stock is outstanding nor FC1's redemption rights with respect to the preferred shares affects the distribution of allocable earnings and profits in the hypothetical distribution to FC1's shareholders. However, the distribution rights of the preferred shares are not a restriction or other limitation within the meaning of paragraph (e)(2)(ii)(D) of this section. As a result, the amount of FC1's allocable earnings and profits distributed in the hypothetical distribution with respect to FC2's preferred shares is $20x (0.04 × $50x × 10) and with respect to USP1's common shares is $80x ($100x − $20x). Accordingly, under paragraphs (e)(2)(i) and (ii) of this section, USP1's pro rata share of FC1's subpart F income is $80x for Year 1 ($100x × ($80x/$100x)).

(viii) *Example 7: Shareholder owns common and preferred stock*—(A) *Facts.* FC1 has outstanding 40 shares of common stock and 60 shares of 6% nonparticipating, nonvoting preferred stock with a par value of $100x per share. USP1 owns 30 shares of the common stock and 15 shares of the preferred stock during Year 1. The remaining 10 shares of common stock and 45 shares of preferred stock of FC1 are owned by Individual A. For Year 1, FC1 has $1,000x of earnings and profits and $500x of subpart F income.

(B) *Analysis.* The right of the holder of the preferred stock to receive 6% of par value is not a restriction or other limitation within the meaning of paragraph (e)(2)(ii)(D) of this section. The amount of FC1's allocable earnings and profits distributed in the hypothetical distribution with respect to FC1's preferred shares is $360x (0.06 × $100x × 60) and with respect to its common shares is $640x ($1,000x − $360x). As a result, under paragraph (e)(2)(ii) of this section, $180x of FC1's subpart F income is allocated to the preferred shares ($500x × ($360x/$1,000x)) and $320x of FC1's subpart F income is allocated to the common shares ($500x × ($640x/$1,000x)). Under paragraph (e)(2)(i) of this section, USP1's pro rata share of the subpart F income of FC1 is $285x, of which $45x is attributable to USP1's preferred shares ($180x × 15/60 × 365/365) and $240x is attributable to USP1's common shares ($320x × 30/40 × 365/365).

(ix) *Example 8: Subpart F income and tested income*—(A) *Facts.* FC1 has outstanding 700 shares of common stock and 300 shares of 4% nonparticipating, voting preferred stock with a par value of $100x per share. USP1 owns all the common shares. USP2 owns all the preferred shares. For Year 1, FC1 has $10,000x of earnings and profits, $2,000x of subpart F income, and $9,000x of tested income.

(B) *Analysis*—(*1*) *Hypothetical distribution.* The allocable earnings and profits of FC1 determined under paragraph (e)(2)(ii)(A) of this section are $11,000x, the greater of FC1's earnings and profits as determined under section 964 ($10,000x) or the sum of FC1's subpart F income and tested income ($2,000x + $9,000x). The amount of FC1's allocable earnings and profits distributed in the hypothetical distribution with respect to USP2's preferred shares is $1,200x (0.04 × $100x × 300) and with respect to USP1's common shares is $9,800x ($11,000x − $1,200x).

(*2*) *Pro rata share of subpart F income.* Under paragraph (e)(2)(ii) of this section, $1,782x of FC1's subpart F income is allocated to the common shares ($2,000x × ($9,800x/$11,000x)) and $218x of FC1's subpart F income is allocated to the preferred shares ($2,000x × ($1,200x/$11,000x)). Accordingly, under paragraph (e)(2)(i) of this section, for Year 1, USP1's pro rata share of FC1's subpart F income is $1,782x ($1,782x × 700/700 × 365/365), and USP2's pro rata share of FC1's subpart F income is $218x ($218x 300/300 × 365/365).

(*3*) *Pro rata share of tested income.* Under § 1.951A–1(d)(2)(i) and paragraph (e)(2)(ii) of this section, $8,018x of FC1's tested income is allocated to the common shares ($9,000x × ($9,800x/$11,000x)) and $982x of FC1's tested income is allocated to the preferred shares ($9,000x × ($1,200x/$11,000x)). Accordingly, under § 1.951A–1(d)(2)(i) and paragraph (e)(2)(i) of this section, for Year 1, USP1's pro rata share of FC1's tested income is $8,018x ($8,018x × 700/700 × 365/365), and USP2's pro rata share of FC1's tested income is $982x ($982x × 300/300 × 365/365).

(x) *Example 9: Subpart F income and tested loss*—(A) *Facts.* The facts are the same as in paragraph (e)(4)(ix)(A) of this section (*Example 8*), except that for Year 1, FC1 has $8,000x of earnings and profits, $10,000x of subpart F income (without regard to the limitation in section 952(c)(1)(A)), and $2,000x of tested loss. Under section 951A(b)(2)(B)(ii) and § 1.951A–6(b), the earnings and profits of FC1 are increased for purposes of section 952(c)(1)(A) by the amount of FC1's tested loss. Accordingly, after the application of section 951A(b)(2)(B)(ii) and § 1.951A–6(b), the subpart F income of FC1 is $10,000x.

(B) *Analysis*—(*1*) *Pro rata share of subpart F income.* The allocable earnings and profits determined under paragraph (e)(2)(ii) of this section are $10,000x, the greater of the earnings and profits of FC1 determined under section 964 ($8,000x) or the sum of FC1's subpart F income and tested income ($10,000x + $0). The amount of FC1's allocable earnings and profits distributed in the hypothetical distribution with respect to USP2's preferred shares is $1,200x (0.04 × $100x × 300) and with respect to USP1's common shares is $8,800x ($10,000x − $1,200x). Under paragraph (e)(2)(ii) of this section, $1,200x of FC1's subpart F income is allocated to the preferred shares ($10,000x × ($1,200x/$10,000x)) and $8,800x of FC1's subpart F income is allocated to the common shares ($10,000x × ($8,800x/$10,000x)). Accordingly, under paragraph (e)(2)(i) of this section, for Year 1, USP1's pro rata share of FC1's subpart F income is $8,800x ($8,800x × 700/700 × 365/365) and USP2's pro rata share of FC1's subpart F income is $1,200x ($1,200x × 300/300 × 365/365).

(*2*) *Pro rata share of tested loss.* For purposes of paragraph (e)(2)(ii) of this section, the allocable earnings and profits determined under § 1.951A–1(d)(3)(i)(B) are $2,000x, the amount of FC1's tested loss. Under § 1.951A–1(d)(3)(i)(C), the entire $2,000x of tested loss is allocated in the hypothetical distribution to USP1's common shares. Accordingly, under § 1.951A–1(d)(3)(i)(A) and paragraph (e)(2)(i) of this section, USP1's pro rata share of the tested loss is $2,000x.

(f) *Determination of holding period*—(1) *In general.* For purposes of sections 951 through 964, the holding period of an asset (including stock of a controlled foreign corporation) is determined by excluding the day on which the asset is acquired and including the day on which the asset is disposed of. Thus, for example, in determining the period that stock of a controlled foreign corporation is owned, the day on which the stock is directly or indirectly acquired is excluded and the day on which the stock is directly or indirectly disposed of is included.

(2) *Example: Period of stock ownership*—(i) *Facts.* On June 30 of Year 1, USP, a domestic corporation, acquires 70 of the 100 shares of the only class of stock of FC, a foreign corporation, from Individual B, a nonresident alien individual who until such time owns all 100 shares of FC. USP sells 10 shares and 60 shares of stock of FC on November 30 and December 31 of Year 1, respectively, to Individual B, a nonresident alien individual.

(ii) *Analysis.* Under paragraph (f)(1) of this section, FC is a controlled foreign corporation for the period beginning July 1 of Year 1 and extending through December 31 of Year 1. As to the 10 shares of stock sold on November 30 of Year 1, USP owns the shares from July 1 of Year 1 through November 30 of Year 1. As to the remaining 60 shares of stock, USP owns the shares beginning July 1 of Year 1 through December 31 of Year 1.

* * * * *

(h) *Definitions.* The following definitions apply for purposes of this section.

Allocable earnings and profits. The term *allocable earnings and profits* has the meaning provided in paragraph (e)(2)(ii)(A) of this section.

CFC year. The term *CFC year* means a taxable year of a foreign corporation in which the foreign corporation is a controlled foreign corporation at any time during the taxable year.

CFC year block. The term *CFC year block* has the meaning provided in paragraph (e)(2)(i)(B)(*2*) of this section.

Controlled foreign corporation. The term *controlled foreign corporation* has the meaning provided in section 957(a) (or, if applicable, section 957(b)).

Controlling section 958(a) U.S. shareholders. The term *controlling section 958(a) U.S. shareholders* has the meaning provided in paragraph (d)(2)(iii)(B) of this section.

Hypothetical distribution. The term *hypothetical distribution* has the meaning provided in paragraph (e)(2)(ii) of this section.

Own. The term *own* (or ownership or owned), when used with respect to stock of a foreign corporation, means to own the stock directly or indirectly within the meaning of section 958(a) and § 1.958–1(a). *See also* § 1.958–1(d) (except as provided in § 1.958–1(d)(2), a domestic partnership is not treated as owning stock of a foreign corporation within the meaning of section 958(a) for purposes of section 951 and for purposes of any provision that specifically applies by reference to section 951 or the regulations in this part under section 951, and the domestic partnership is treated as a foreign partnership under section 958(a)(2) in determining the persons that own stock of the foreign corporation within the meaning of section 958(a)).

Related persons. The term *related persons* means persons that are related within the meaning of section 267(b), as applied without regard to section 267(c)(3).

Section 958(a) U.S. shareholders. The term *section 958(a) U.S. shareholders* has the meaning provided in paragraph (d)(2)(iii)(A) of this section.

Significant ownership variance. The term *significant ownership variance* has the meaning provided in paragraph (d)(2)(ii) of this section.

Specified transfer. The term *specified transfer* has the meaning provided in paragraph (d)(2)(ii)(B) of this section.

Status change event. The term *status change event* has the meaning provided in paragraph (d)(1)(ii) of this section.

Subpart F income. The term *subpart F income* has the meaning provided in section 952.

Tested income. The term *tested income* has the meaning provided in section 951A(b)(2)(A).

Tested loss. The term *tested loss* has the meaning provided in section 951A(b)(2)(B)(i).

United States shareholder. The term *United States shareholder* has the meaning provided in paragraph (g) of this section.

(i) *Applicability date.* This section applies to taxable years of foreign corporations beginning after December 31, 2025, and to taxable years of United States shareholders for which such taxable years of those foreign corporations are relevant. For rules applicable to taxable years of foreign corporations beginning on or before December 31, 2025, and to taxable years of United States shareholders in which or with which such taxable years end, see 26 CFR 1.951–1 as contained in 26 CFR part 1 edition revised as of April 1, 2026.

■ **Par. 5.** Section 1.951–4 is added to read as follows:

§ 1.951–4 Transition rule for dividends.

(a) *Scope.* This section sets forth the rules for applying the transition rule for dividends in section 70354(c)(2) of Public Law 119–21, 139 Stat. 72 (July 4, 2025) (OBBBA). Paragraph (b) of this section provides the general rule for dividends subject to the transition rule. Paragraph (c) of this section provides the meaning of dividend paid or deemed paid. Paragraph (d) of this section provides the meaning of United States person subject to Federal income tax. Paragraph (e) of this section provides the meaning of taxable income. Paragraph (f) of this section provides rules for determining whether a dividend increases taxable income. Paragraph (g) of this section provides rules for the application of this section to dividends paid or deemed paid to partnerships. Paragraph (h) of this section provides certain substantiation requirements for establishing that a dividend increases the taxable income of a United States person subject to Federal income tax. Paragraph (i) of this section provides the applicability date for this section.

(b) *Transition rule.* For purposes of this section, the term *transition rule* means the rule provided in section 70354(c)(2) of the OBBBA and this paragraph (b). Under the transition rule, for purposes of applying section 951(a)(2)(B), as in effect before amendment by the OBBBA, a dividend paid or deemed paid by a controlled foreign corporation with respect to stock of the controlled foreign corporation is not treated as a dividend to the extent that—

(1) Either—

(i) The dividend was paid or deemed paid on or before June 28, 2025, during the controlled foreign corporation's taxable year that includes June 28, 2025, and the United States shareholder that owned (within the meaning of section 958(a)) that stock on the last day of that taxable year did not own (within the meaning of section 958(a)) that stock during the portion of the taxable year ending on June 28, 2025; or

(ii) The dividend was paid or deemed paid after June 28, 2025, and before the controlled foreign corporation's first taxable year beginning after December 31, 2025; and

(2) The dividend does not increase the taxable income of a United States person subject to Federal income tax.

(c) *Dividend paid or deemed paid.* For purposes of this section, any amount that would be treated, without regard to this section, as a distribution received by a person as a dividend under section 951(a)(2)(B), as in effect before the amendments to section 951(a) made by the OBBBA, is treated as a dividend paid or deemed paid.

(d) *United States person subject to Federal income tax.* For purposes of this section, a United States person subject to Federal income tax means—

(1) Any United States person (as defined in section 7701(a)(30)), except for a domestic partnership, an S corporation (as defined in section 1361), a trust that is a United States person described in section 7701(a)(30)(E) and treated as owned by a person under sections 671 through 678, or a bona fide resident (as defined in section 937(a)) of Guam, the Commonwealth of the Northern Mariana Islands, or the U.S. Virgin Islands; and

(2) Any nonresident alien individual who elects to be treated as a resident of the United States under section 6013(g) or (h).

(e) *Meaning of taxable income*—(1) *In general.* Except as provided in paragraph (e)(2) of this section, for purposes of this section, taxable income means taxable income as defined in section 63.

(2) *Exceptions*—(i) *Regulated investment companies.* In the case of a regulated investment company (RIC) (as defined in section 851) that satisfies the requirements of section 852(a) for a taxable year in which the RIC receives, or is deemed to receive, a dividend described in paragraph (b)(1) of this section, taxable income means investment company taxable income (as defined in section 852(b)).

(ii) *Real estate investment trusts.* In the case of a real estate investment trust (REIT) (as defined in section 856) that satisfies the requirements of section 857(a) for a taxable year in which the REIT receives, or is deemed to receive, a dividend described in paragraph (b)(1) of this section, taxable income means real estate investment trust taxable income (as defined in section 857(b)(2)).

(iii) *Exempt organizations.* In the case of an organization exempt from taxation under section 501(a), taxable income means unrelated business taxable income (as defined in section 512).

(f) *Determining whether a dividend increases taxable income*—(1) *In general.* For purposes of determining whether a dividend paid or deemed paid increases the taxable income of a United States person subject to Federal income tax, all applicable provisions of the Internal Revenue Code, and the regulations thereunder, are applied before applying, and without regard to, the transition rule. Therefore, the determination of whether a dividend paid or deemed paid increases the taxable income of a United States person subject to Federal income tax is made after the application of any exclusion that results in the dividend not being included in the person's gross income or taxable income and any dividends received deduction that reduces the amount of the dividend included in the person's taxable income.

(2) *Section 245A coordination example.* The following example illustrates the application of the rule in paragraph (f)(1) of this section.

(i) *Facts.* US1, a domestic corporation that is not a RIC, REIT, S corporation, or organization exempt from taxation under section 501(a), owns all the stock of CFC, a foreign corporation. On March 1, 2025, CFC pays a dividend of $100x to US1, which, absent the application of § 1.245A–5(b), qualifies for the deduction under section 245A(a). On July 1, 2025, USP1 sells all its stock of CFC to US2, a domestic corporation, which results in an extraordinary reduction with respect to US1's ownership of CFC, within the meaning of § 1.245A–5(e)(1). If § 1.245A–5 were applied before and without regard to the transition rule, US1's pre-reduction pro rata share under § 1.245A–5(e)(2)(ii) would be $100x and the entire dividend of $100x to US1 would be an extraordinary reduction amount with respect to US1, within the meaning of § 1.245A–5(e)(1). Additionally, the ineligible amount with respect to US1 within the meaning of § 1.245A–5(b)(2), would be $100x. US1, US2, and CFC all use a calendar taxable year. US1's reporting for Federal income tax purposes is consistent with § 1.245A–5(e).

(ii) *Analysis.* Under paragraph (f)(1) of this section, the determination of whether the dividend of $100x increases the taxable income of US1, a United States person subject to Federal income tax, is made after the application of any exclusion that results in the dividend not being included in the person's gross income or taxable income and any dividends received deduction that reduces the amount of the dividend included in the person's taxable income. Additionally, in determining US1's pre-reduction pro rata share under § 1.245A–5(e)(2)(ii), any decrease for amounts taken into account by a U.S. tax resident under § 1.245A–5(e)(2)(ii)(B) is determined by applying section 951(a)(2)(B), as in effect before amendment by the OBBBA, without regard to the transition rule. Therefore, because the ineligible amount with respect to US1 and the dividend paid to US1 would be $100x before applying, and without regard to, the transition rule, the ineligible amount is $100x and none of the dividend paid to US1 is eligible for a section 245A deduction after applying § 1.245A–5(b). Accordingly, the entire dividend of $100x is treated as increasing the taxable income of a United States person subject to Federal income tax for purposes of this section. Additionally, the election to close CFC's taxable year pursuant to § 1.245A–5(e)(3)(i)(A) is available to US1, provided the other conditions described in § 1.245A–5(e)(3)(i)(A) are met.

(3) *Generally applicable deductions.* The determination of the amount by which a dividend paid or deemed paid increases the taxable income of a United States person subject to Federal income tax is made without regard to decreases to taxable income resulting from generally applicable deductions of the United States person that are not particular to the receipt of a dividend, including deductions for—

(i) Depreciation under section 167;

(ii) Net operating losses under section 172;

(iii) Distributions under sections 651 and 661; and

(iv) Dividends paid under sections 852(b)(2)(D) and 857(b)(2)(B).

(4) *Dividends paid to controlled foreign corporations*—(i) *In general.* In the case of a dividend paid or deemed paid by a controlled foreign corporation to another controlled foreign corporation, for purposes of this section, the dividend is treated as increasing the taxable income of a United States person subject to Federal income tax to the extent the dividend is taken into account in determining a United States shareholder's inclusion under section 951(a)(1)(A) or 951A(a).

(ii) *Inclusions under section 951(a)(1)(A).* For purposes of this paragraph (f)(4), a dividend is taken into account in determining a United States shareholder's inclusion under section 951(a)(1)(A) if the dividend would give rise to an amount includible in gross income by the United States shareholder under section 951(a)(1)(A), determined without regard to properly allocable deductions of the controlled foreign corporation that received or is deemed to receive the dividend (except as provided in paragraph (f)(4)(iv) of this section), the current earnings and profits limitation under section 952(c)(1)(A), qualified deficits under section 952(c)(1)(B), or chain deficits under section 952(c)(1)(A).

(iii) *Inclusions under section 951A(a).* For purposes of this paragraph (f)(4), a dividend is taken into account in determining a United States shareholder's inclusion under section 951A(a) if the dividend would give rise to an amount includible in gross income by the United States shareholder under section 951A, determined without regard to properly allocable deductions of the controlled foreign corporation that received or is deemed to receive the dividend (except as provided in paragraph (f)(4)(iv) of this section), tested losses (as defined in section 951A(c)(2)(B) before amendment by the OBBBA) of any other controlled foreign corporation, or the net deemed tangible income return of the United States shareholder (as defined in section 951A(b)(2) before amendment by the OBBBA).

(iv) *High-taxed amounts.* For purposes of this paragraph (f)(4), any dividend paid or deemed paid to a controlled foreign corporation that is excluded from the controlled foreign corporation's subpart F income or tested income under the high-tax exception or the high-tax exclusion (see section 954(b)(4) and § 1.951A–2(c)(1)(iii)), is treated as not taken into account in determining a United States shareholder's inclusion under section 951(a)(1)(A) or 951A(a).

(g) *Application to partnerships*—(1) *In general.* In the case of a dividend paid or deemed paid to a partnership, the determination of whether the dividend increases the taxable income of a United States person subject to Federal income tax is made by reference to the partners of the partnership. Further, to the extent the dividend is included in the distributive share of a partner that is itself a partnership, the determination of whether the dividend increases the taxable income of a United States person subject to Federal income tax is made by reference to the partners of that partnership.

(2) *Safe harbor for publicly held partnership interests*—(i) *In general.* To the extent a dividend paid or deemed paid by a controlled foreign corporation is allocated to a de minimis owner by reason of owning an interest in a class of publicly held interests in a domestic partnership, the dividend is treated as increasing the taxable income of a United States person subject to Federal income tax.

(ii) *Exception.* Paragraph (g)(2)(i) of this section does not apply if the domestic partnership has actual knowledge of facts that allow the partnership to determine that the de minimis owner is not a United States person subject to Federal income tax within the meaning of paragraph (d) of this section or that the dividend paid by the controlled foreign corporation does not increase the de minimis owner's taxable income within the meaning of paragraphs (e) and (f) of this section.

(iii) *Meaning of de minimis owner.* For purposes of this paragraph (g)(2), the term *de minimis owner* means any person that owns no more than 5 percent of a class of publicly held interests in a domestic partnership on each day of the taxable year of the domestic partnership. In determining whether a person is a de minimis owner, a person is treated as owning an interest in a class of publicly held interests if the person owns the interest directly or by applying the rules of section 318(a), except that section 318(a)(2)(C) and (a)(3)(C) are applied for this purpose by substituting ''5 percent'' for ''50 percent.''

(iv) *Meaning of publicly held interest.* For purposes of this paragraph (g)(2), *publicly held interest* means any class of interests in a domestic partnership that is regularly traded on an established securities market as defined in § 1.7704–1(b), but without regard to § 1.7704–1(b)(3).

(h) *Establishing extent to which a dividend increases taxable income of a United States person subject to Federal income tax.* A United States shareholder that claims a reduction of its pro rata share of subpart F income or tested income under section 951(a)(2)(B), as a result of a dividend that is described in paragraph (b)(1) of this section, must substantiate such claim by attaching to Form 5471, *Information Return of U.S. Persons With Respect To Certain Foreign Corporations* (or successors), a statement titled ''Pro Rata Share Transition Rule Statement'' that—

(1) Provides the amount of each dividend paid by the controlled foreign corporation (with respect to the stock owned by the United States shareholder filing the return) that is described in paragraph (b)(1) of this section but treated as a dividend for purposes of applying section 951(a)(2)(B),

(2) Describes why the United States shareholder filing the return is entitled to treat each such amount as a dividend for purposes of section 951(a)(2)(B), and

(3) Describes how the United States shareholder determined such amount increased the taxable income of a United States person subject to Federal income tax under the rules of this section.

(i) *Applicability date.* This section applies to taxable years of a foreign corporation that either include June 28, 2025, or begin after June 28, 2025, and before the foreign corporation's first taxable year beginning after December 31, 2025.

■ **Par. 6.** Section 1.951A–1 is amended by:

■ 1. Revising paragraphs (a)(2) through (e); and

■ 2. Removing paragraph (f).

The revisions read as follows:

§ 1.951A–1 General provisions.

(a) * * *

(2) *Scope.* Paragraph (b) of this section provides the general rule requiring a United States shareholder to include in gross income its net CFC tested income for a U.S. shareholder inclusion year. Paragraph (c) of this section provides rules for determining the amount of a United States shareholder's net CFC tested income for the U.S. shareholder inclusion year, including a rule for the application of section 951A and the section 951A regulations to consolidated groups. Paragraph (d) of this section provides rules for determining a United States shareholder's pro rata share of tested income and tested loss for purposes of determining the United States

shareholder's net CFC tested income. Paragraph (e) of this section provides additional definitions for purposes of this section and the section 951A regulations. For rules applying this section to foreign controlled United States shareholders and foreign controlled foreign corporations, see section 951B (generally treating references in this section to the term ''United States shareholder'' as including the term ''foreign controlled United States shareholder'' and the term ''controlled foreign corporation'' as including the term ''foreign controlled foreign corporation'').

(b) *Inclusion of net CFC tested income.* Each person who is a United States shareholder of any controlled foreign corporation and owns stock of any such controlled foreign corporation includes in gross income in the U.S. shareholder inclusion year the shareholder's net CFC tested income inclusion amount, if any, for the U.S. shareholder inclusion year.

(c) *Determination of net CFC tested income inclusion amount*—(1) *In general.* Except as provided in paragraph (c)(2) of this section, the term net CFC tested income inclusion amount means, with respect to a United States shareholder and a U.S. shareholder inclusion year, the excess (if any) of—

(i) The aggregate of the shareholder's pro rata share of the tested income of each tested income CFC (as defined in § 1.951A–2(b)(1)) for a CFC inclusion year, over

(ii) The aggregate of the shareholder's pro rata share of the tested loss of each tested loss CFC (as defined in § 1.951A–2(b)(2)) for a CFC inclusion year.

(2) [Reserved]

(d) *Determination of pro rata share*—(1) *In general.* For purposes of paragraph (c)(1) of this section, each United States shareholder that owns stock of a controlled foreign corporation on any day during a CFC inclusion year determines its pro rata share (if any) of tested income or tested loss of the controlled foreign corporation for the U.S. shareholder inclusion year that includes the last day on which the United States shareholder owns stock in the controlled foreign corporation during the CFC inclusion year. In no case may the sum of the pro rata share of tested income or tested loss of a controlled foreign corporation for a CFC inclusion year allocated to stock under this paragraph (d) exceed the amount of the tested income or tested loss of the controlled foreign corporation for the CFC inclusion year. Except as modified in this paragraph (d), a United States shareholder's pro rata share of tested income or tested loss is determined under the rules of section 951(a)(2) and § 1.951–1(b) and (e) in the same manner as those provisions apply to subpart F income. *See also* § 1.951–1(d), which requires or permits the closing of the taxable year of a foreign corporation in specified circumstances. Under section 951(a)(2) and § 1.951–1(b) and (e), as modified by this paragraph (d), a United States shareholder's pro rata share of tested income or tested loss for a U.S. shareholder inclusion year is determined with respect to the stock of the controlled foreign corporation owned by the U.S. shareholder during a CFC inclusion year. A United States shareholder's pro rata share of tested income or tested loss is translated into United States dollars using the average exchange rate for the CFC inclusion year of the controlled foreign corporation. Paragraphs (d)(2) and (3) of this section provide rules for determining a United States shareholder's pro rata share of tested income or tested loss of a controlled foreign corporation.

(2) *Tested income*—(i) *In general.* Except as provided in paragraph (d)(2)(ii) of this section, a United States shareholder's pro rata share of the tested income of each tested income CFC for a U.S. shareholder inclusion year is determined under section 951(a)(2) and § 1.951–1(b) and (e), substituting ''tested income'' for ''subpart F income'' each place it appears, other than in § 1.951–1(e)(2)(ii)(A).

(ii) *Special rule for prior allocation of tested loss.* In any case in which tested loss has been allocated to any class of stock in a prior CFC inclusion year under paragraph (d)(3)(iii) of this section (or under § 1.951A–1(d)(4)(iii), as contained in 26 CFR part 1 edition revised as of April 1, 2026), tested income is first allocated to each such class of stock in the order of its liquidation priority to the extent of the excess (if any) of the sum of the tested loss allocated to each such class of stock for each prior CFC inclusion year under paragraph (d)(3)(iii) of this section (or under § 1.951A–1(d)(4)(iii), as contained in 26 CFR part 1 edition revised as of April 1, 2026), over the sum of the tested income allocated to each such class of stock for each prior CFC inclusion year under this paragraph (d)(2)(ii). Paragraph (d)(2)(i) of this section applies for purposes of determining a United States shareholder's pro rata share of the remainder of the tested income, except that, for purposes of the hypothetical distribution in § 1.951–1(e)(2)(ii), the amount of allocable earnings and profits of the tested income CFC is reduced by the amount of tested income allocated under the first sentence of this paragraph (d)(2)(ii). For an example of the application of this paragraph (d)(2), see paragraph (d)(3)(iv)(B) of this section (*Example 2*).

(iii) *Examples.* The following examples illustrate the application of paragraph (d)(2) of this section. *See also* § 1.951–1(e)(4)(ix) (*Example 8*) (illustrating a United States shareholder's pro rata share of tested income).

(A) *Example 1*—(*1*) *Facts.* FS, a controlled foreign corporation, has outstanding 70 shares of common stock and 30 shares of 4% nonparticipating, cumulative preferred stock with a par value of \$10x per share. P Corp, a domestic corporation and a United States shareholder of FS, owns all of the common shares. Individual A, a United States citizen and a United States shareholder of FS, owns all of the preferred shares. Individual A, FS, and P Corp use the calendar year as their taxable year. Individual A and P Corp are shareholders of FS for all of Year 1. At the beginning of Year 1, FS had no dividend arrearages with respect to its preferred stock. For Year 1, FS has \$100x of earnings and profits, \$120x of tested income, and no subpart F income within the meaning of section 952.

(*2*) *Analysis—Determination of pro rata share of tested income.* For purposes of determining P Corp's pro rata share of FS's tested income under this paragraph (d)(2) the amount of FS's allocable earnings and profits for purposes of the hypothetical distribution described in § 1.951–1(e)(2)(ii) is \$120x, the greater of its earnings and profits as determined under section 964 (\$100x) and the sum of its subpart F income and tested income (\$0 + \$120x). Under this paragraph (d)(2) and § 1.951–1(e)(2)(ii), the amount of FS's allocable earnings and profits distributed in the hypothetical distribution with respect to the preferred shares of FS is \$12x (0.04 × \$10x × 30) and the amount distributed with respect to the common shares of FS is \$108x (\$120x − \$12x), which results in \$12x of tested income being allocated to the preferred shares and \$108x being allocated to the common shares. Accordingly, under this paragraph (d)(2) and § 1.951–1(e)(2), Individual A's pro rata share of FS's tested income is \$12x, and P Corp's pro rata share of FS's tested income is \$108x for Year 1.

(B) *Example 2*—(*1*) *Facts.* P Corp, a domestic corporation and a United States shareholder, owns all 100 shares of the only class of stock of FS, a controlled foreign corporation, from January 1 of Year 1, until May 26 of Year 1. On May 26 of Year 1, P Corp sells all its FS stock to R Corp, a domestic corporation that is not related to P Corp, and recognizes no gain or loss on the sale. P Corp does not make an election to close the taxable year of FS under § 1.951–1(d)(2). R Corp, a United States shareholder of FS, owns the stock of FS from May 27 through December 31 of Year 1. For Year 1, FS has $50x of earnings and profits, $50x of tested income, and no subpart F income within the meaning of section 952. P Corp, R Corp, and FS all use the calendar year as their taxable year, and Year 1 has 365 days.

(*2*) *Analysis—Determination of pro rata share of tested income.* Under this paragraph (d)(2) and § 1.951–1(e)(2)(i), P Corp's pro rata share of the tested income of FS is $20x, which is equal to $50x of tested income multiplied by the product of two fractions. For the first fraction, the numerator is the number of shares P Corp owned (100) and the denominator is the number of shares of FS outstanding (100) (100 percent). For the second fraction, the numerator is the number of days in Year 1 that P Corp owned the shares while P Corp was a United States shareholder of FS and FS was a CFC (146) and the denominator is the number of days in the CFC inclusion year of FS (365) (40 percent). R Corp's pro rata share of the tested income of FS is $30x, which is equal to $50x of tested income multiplied by the product of two fractions. For the first fraction, the numerator is the number of shares R Corp owned (100) and the denominator is the number of shares of FS outstanding (100) (100 percent). For the second fraction, the numerator is the number of days in Year 1 that R Corp owned the shares while R Corp was a United States shareholder of FS and FS was a CFC (219) and the denominator is the number of days in the CFC inclusion year of FS (365) (60 percent).

(3) *Tested loss*—(i) *In general.* A United States shareholder's pro rata share of the tested loss of each tested loss CFC for a U.S. shareholder inclusion year is determined under section 951(a)(2) and § 1.951–1(b) and (e) with the following modifications—

(A) ''Tested loss'' is substituted for ''subpart F income'' each place it appears;

(B) For purposes of the hypothetical distribution described in § 1.951–1(e)(2)(ii), the amount of allocable earnings and profits of a controlled foreign corporation for a CFC inclusion year is treated as being equal to the tested loss of the tested loss CFC for the CFC inclusion year; and

(C) Except as provided in paragraphs (d)(3)(ii) and (iii) of this section, the hypothetical distribution described in § 1.951–1(e)(2)(ii) is treated as made solely with respect to the common stock of the tested loss CFC.

(ii) *Special rule in case of accrued but unpaid dividends.* If a tested loss CFC's earnings and profits that have accumulated since the issuance of preferred shares are reduced below the amount necessary to satisfy any accrued but unpaid dividends with respect to such preferred shares, then the amount by which the tested loss reduces the earnings and profits below the amount necessary to satisfy the accrued but unpaid dividends is allocated in the hypothetical distribution described in § 1.951–1(e)(2)(ii) to the preferred stock of the tested loss CFC and the remainder of the tested loss is allocated in the hypothetical distribution to the common stock of the tested loss CFC.

(iii) *Special rule for stock with no liquidation value.* If a tested loss CFC's common stock has a liquidation value of zero and there is at least one other class of equity with a liquidation preference relative to the common stock, then the tested loss is allocated in the hypothetical distribution described in § 1.951–1(e)(2)(ii) to the most junior class of equity with a positive liquidation value to the extent of such liquidation value. Thereafter, tested loss is allocated to the next most junior class of equity to the extent of its liquidation value and so on. All determinations of liquidation value are to be made as of the beginning of the CFC inclusion year of the tested loss CFC.

(iv) *Examples.* The following examples illustrate the application of this paragraph (d)(3). *See also* § 1.951–1(e)(4)(x) (*Example 9*) (illustrating a United States shareholder's pro rata share of subpart F income and tested loss).

(A) *Example 1*—(*1*) *Facts.* FS, a controlled foreign corporation, has outstanding 70 shares of common stock and 30 shares of 4% nonparticipating, cumulative preferred stock with a par value of $10x per share. P Corp, a domestic corporation and a United States shareholder of FS, owns all the common shares. Individual A, a United States citizen and a United States shareholder, owns all the preferred shares. FS, Individual A, and P Corp all use the calendar year as their taxable year. Individual A and P Corp are shareholders of FS for all of Year 5. At the beginning of Year 5, FS had earnings and profits of $120x, which accumulated after the issuance of the preferred stock. At the end of Year 5, the accrued but unpaid dividends with respect to the preferred stock are $36x. For Year 5, FS has a $100x tested loss, and no other items of income, gain, deduction or loss. At the end of Year 5, FS has earnings and profits of $20x.

(*2*) *Analysis.* FS is a tested loss CFC for Year 5. Before taking into account the tested loss in Year 5, FS had sufficient earnings and profits to satisfy the accrued but unpaid dividends of $36x. The amount of the reduction in earnings below the amount necessary to satisfy the accrued but unpaid dividends attributable to the tested loss is $16x ($36x − ($120x − $100x)). Accordingly, under paragraph (d)(3)(ii) of this section, $16x of the tested loss is allocated to the preferred stock of FS in the hypothetical distribution described in § 1.951–1(e)(2)(ii), and $84x ($100x − $16x) of the tested loss is allocated to the common shares of FS in the hypothetical distribution.

(B) *Example 2*—(*1*) *Facts.* FS, a controlled foreign corporation, has outstanding 100 shares of common stock and 50 shares of 4% nonparticipating, cumulative preferred stock with a par value of $100x per share. P Corp, a domestic corporation and a United States shareholder of FS, owns all the common shares. Individual A, a United States citizen and a United States shareholder, owns all the preferred shares. FS, Individual A, and P Corp all use the calendar year as their taxable year. Individual A and P Corp are shareholders of FS for all of Year 1 and Year 2. At the beginning of Year 1, the common stock has no liquidation value and the preferred stock has a liquidation value of $5,000x and no accrued but unpaid dividends. In Year 1, FS has a tested loss of $1,000x and no other items of income, gain, deduction, or loss. In Year 2, FS has tested income of $3,000x and no other items of income, gain, deduction, or loss. FS has earnings and profits of $3,000x for Year 2. At the end of Year 2, FS has accrued but unpaid dividends of $400x with respect to the preferred stock, the sum of $200x for Year 1 (0.04 × $100x × 50) and $200x for Year 2 (0.04 × $100x × 50).

(*2*) *Analysis*—(*i*) *Year 1.* FS is a tested loss CFC in Year 1. The common stock of FS has a liquidation value of zero, and the preferred stock has a liquidation preference relative to the common stock. The tested loss ($1,000x) does not exceed the liquidation value of the preferred stock ($5,000x). Accordingly, under paragraph (d)(3)(iii) of this section, the tested loss is allocated to the preferred stock in the hypothetical distribution described in § 1.951–1(e)(2)(ii). Individual A's pro rata share of the tested loss is $1,000x, and P Corp's pro rata share of the tested loss is $0.

(*ii*) *Year 2.* FS is a tested income CFC in Year 2. Because $1,000x of tested loss was allocated to the preferred stock in Year 1 under paragraph (d)(3)(iii) of this section, the first $1,000x of tested income in Year 2 is allocated to the preferred stock under paragraph (d)(2)(ii) of this section. P Corp's and Individual A's pro rata shares of the remaining $2,000x of tested income are determined under the general rule of paragraph (d)(2)(i) of this section, except that for purposes of the hypothetical distribution the amount of FS's allocable earnings and profits is reduced by the tested income allocated under paragraph (d)(2)(ii) of this section to $2,000x ($3,000x − $1,000x). Accordingly, under paragraph (d)(2)(i) of this section and § 1.951–1(e)(2)(ii), the amount of FS's allocable earnings and profits distributed in the hypothetical distribution with respect to the preferred stock of FS is $400x ($400x of accrued but unpaid dividends) and with respect to the common stock of FS is $1,600x ($2,000x − $400x), which results in $400x of tested income being allocated to the preferred stock and $1,600x of tested income being allocated to the common stock. Under paragraph (d)(2)(i) of this section and § 1.951–1(e)(2)(i), Individual A's pro rata share of the tested income is $1,400x ($1,000x + $400x), and P Corp's pro rata share of the tested income is $1,600x.

(e) *Definitions.* This paragraph (e) provides additional definitions that apply for purposes of this section and the section 951A regulations. Other definitions relevant to the section 951A regulations are included in §§ 1.951A–2 through 1.951A–4.

(1) *CFC inclusion year.* The term *CFC inclusion year* means a taxable year of a foreign corporation in which the foreign corporation is a controlled foreign corporation at any time during the taxable year.

(2) *Controlled foreign corporation.* The term *controlled foreign corporation* has the meaning provided in section 957(a).

(3) *Own.* The term *own* (or ownership or owned), when used with respect to stock of a foreign corporation, means to own the stock directly or indirectly within the meaning of section 958(a) and § 1.958–1(a). *See also* § 1.958–1(d) (except as provided in § 1.958–1(d)(2), a domestic partnership is not treated as owning stock of a foreign corporation within the meaning of section 958(a) for purposes of section 951A and for purposes of any provision that specifically applies by reference to section 951A or the section 951A regulations, and the domestic partnership is treated as a foreign partnership under section 958(a)(2) in determining the persons that own stock of the foreign corporation within the meaning of section 958(a)).

(4) *United States shareholder.* The term *United States shareholder* has the meaning set forth in section 951(b).

(5) *U.S. shareholder inclusion year.* The term *U.S. shareholder inclusion year* means a United States shareholder's taxable year that includes the last day on which the United States shareholder owns stock in a controlled foreign corporation during a CFC inclusion year of the controlled foreign corporation.

■ **Par. 7.** Section 1.951A–7 is amended by:

■ 1. Revising paragraph (a); and

■ 2. Adding paragraph (c).

The revision and addition read as follows:

§ 1.951A–7 Applicability dates.

(a) *In general.* Except as otherwise provided in this section, § 1.951A–1 applies to taxable years of foreign corporations beginning after December 31, 2025, and to taxable years of United States shareholders for which such taxable years of those foreign corporations are relevant. For rules applicable to taxable years of foreign corporations beginning on or before such date, and to taxable years of United States shareholders in which or with which such taxable years end, see 26 CFR 1.951A–1 as contained in 26 CFR part 1 edition revised as of April 1, 2026. Except as otherwise provided in this section, §§ 1.951A–2 through 1.951A–6 apply to taxable years of foreign corporations beginning after December 31, 2017, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

* * * * *

(c) *Transition rule for global intangible low-taxed income.* In the case of a taxable year of a foreign corporation beginning after December 31, 2025, that ends with or within a taxable year of a United States shareholder beginning on or before December 31, 2025, 26 CFR 1.951A–1 as contained in 26 CFR part 1 edition revised as of April 1, 2026 applies with respect to such United States shareholder, taking into account the amendments to section 951(a)(2) made by section 70354(a) of Public Law 119–21, 139 Stat. 72 (July 4, 2025) when determining the United States shareholder's pro rata share of any tested item.

■ **Par. 8.** Section 1.1502–80 is amended by revising paragraph (j)(3) to read as follows:

§ 1.1502–80 Applicability of other provisions of law.

* * * * *

(j) * * *

(3) *Applicability date.* This paragraph (j) applies to consolidated return years—

(i) For which the original consolidated return is due (without extensions) after February 23, 2023; and

(ii) That include the last day of a taxable year beginning before January 1, 2026, of a controlled foreign corporation owned by a member of the consolidated group.

■ **Par. 9.** Section 1.6038–2 is amended by revising paragraphs (f) and (m) to read as follows:

§ 1.6038–2 Information returns required of United States persons with respect to annual accounting periods of certain foreign corporations.

* * * * *

(f) *Contents of return.* Returns on Form 5471 (or successor form) must contain information prescribed by Form 5471 (or successor form). Such information may include (but is not limited to) the following:

* * * * *

(8) With respect to the outstanding stock of the foreign corporation—

(i) A description of each class of stock,

(ii) The first day of the foreign corporation's annual accounting period and the number of shares of each class of stock outstanding on the first day of the annual accounting period,

(iii) The date and a description of any issuance, redemption, or any other change to the number of shares of any class of stock during the annual accounting period, including the number of shares issued, redeemed, or otherwise changed,

(iv) The balance of each class of stock outstanding during the annual accounting period immediately following any such issuance, redemption, or other change, and

(v) For each person that directly owns (within the meaning of section 958(a)) stock in the foreign corporation and each United States shareholder (as defined in section 951(b), taking into account section 953(c)) that indirectly owns (as described in section 958(a)(2) and determined by treating a domestic partnership in the same manner as a foreign partnership pursuant to § 1.958–1(d)) stock in the foreign corporation, at any time during the annual accounting period:

(A) A description of each class of stock held by each such person (in the case of direct owners) or indirectly owned by each such person (in the case of United States shareholders) at any time during the annual accounting period,

(B) The number of shares of each class of stock held on the first day of the annual accounting period by each such person (in the case of direct owners) or indirectly owned on the first day of the annual accounting period by each such person (in the case of United States shareholders),

(C) The date and a description of any acquisition, receipt, redemption, disposition, or any other change to the number of any shares of stock held by each such person (in the case of direct owners) or indirectly owned by each such person (in the case of United States shareholders) at any time during the annual accounting period, including the number of shares acquired, received, redeemed, disposed, or otherwise changed, and

(D) The balance of each class of stock held by each such person (in the case of direct owners) or indirectly owned by each such person (in the case of United States shareholders) during the annual accounting period immediately following any such acquisition, receipt, redemption, disposition, or other change.

* * * * *

(m) *Applicability dates.* This section applies to taxable years of foreign corporations beginning after December 31, 2025. For rules applicable to taxable years of foreign corporations beginning on or before such date, see 26 CFR 1.6038–2 as contained in 26 CFR part 1 edition revised as of April 1, 2026.

Frank J. Bisignano,

Chief Executive Officer.

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DEPARTMENT OF HOMELAND SECURITY

Coast Guard

33 CFR Part 110

[Docket Number USCG–2026–0035]

RIN 1625–AA01

Anchorage Regulation; San Juan Bay, San Juan, PR

AGENCY: Coast Guard, Department of Homeland Security.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Coast Guard is proposing to amend the special anchorage regulation in the Bahía de San Juan, PR, known as Anchorage D, by revising the anchorage boundaries. The current boundaries of Anchorage D overlap with deep draft commercial vessel traffic routes within the San Antonio Channel, causing a hazard to navigation. The proposed amendment to the special anchorage regulation is necessary to protect personnel, vessels, and the marine environment from hazards associated with vessel traffic transiting the San Antonio Channel. We invite your comments on this proposed rulemaking.

DATES: Comments and related material must be received by the Coast Guard on or before September 25, 2026.

ADDRESSES: To submit comments and view available documents, go to *https://www.regulations.gov* and search for USCG–2026–0035.

FOR FURTHER INFORMATION CONTACT: If you have questions about this proposed rule, contact Lieutenant Commander Rachel Thomas, Sector San Juan Waterways Management Division, U.S. Coast Guard; telephone 571–613–1417, or email *Rachel.E.Thomas@uscg.mil.*

SUPPLEMENTARY INFORMATION:

I. Table of Abbreviations

CFR Code of Federal Regulations
COTP Captain of the Port
DHS Department of Homeland Security
FR Federal Register
NPRM Notice of proposed rulemaking
§ Section
U.S.C. United States Code

II. Background and Authority

The special anchorage area within for the Bahía de San Juan, commonly referred to as Anchorage D, is codified in 33 CFR 110.74c. The current boundaries of Anchorage D overlap with deep draft commercial vessel traffic routes within the San Antonio Channel, causing a hazard to navigation. While Anchorage D and the deep draft channel were originally segregated, an Army Corps of Engineering project expanded the federally maintained deep draft segment of the San Antonio Channel to the east by approximately 1,000 feet, creating a substantial overlap with Anchorage D. The situation has been exacerbated by increased use of the Pan-American Pier by larger commercial vessels, especially cruise ships. This has created emerging operational challenges, resulting in frequent reports of safety hazards from cruise lines, the San Juan Bay Harbor Pilots, the Port Authority, and the San Juan Maritime Police, regarding the proximity of recreational vessels anchored within the portion of Anchorage Delta which overlaps with the deep draft shipping channel. Consequently, there is a persistent and recurring risk of collisions and maritime incidents.

Commercial cruise ships, cargo ships, and ferries calling at the Pan-American Pier have limited maneuvering space, jeopardizing safe navigation when recreational vessels are anchored in the deep draft channel. These safety hazards are compounded by complex environmental and meteorological conditions within the Bahía de San Juan. Wind and sea states in the harbor are primarily driven by the tropical trade wind system, which causes continuous diurnal shifts between onshore and offshore breezes. Furthermore, while interior waters are generally calm, heavy northern seas frequently generate a significant surge and undertow that propagates as far inland as the San Antonio Channel. These dynamic conditions, combined with unpredictable seasonal hazards such as winter swells and the Atlantic hurricane season, severely restrict vessel maneuverability.

Vessel operators and the San Juan Bay Pilots must make a professional decision to either accept additional risk, or when the risks are unacceptably high, delay commercial vessel transits until the recreational vessels at Anchorage D can be relocated. However, anchored recreational vessels are typically within the existing designated and charted Anchorage D boundaries, making interventions tenuous. A recent case included the transit of a cruise ship almost 1,100 feet in length, with northeasterly winds of 20 knots, necessitating passing a recreational anchored vessel at a distance of 25 feet, adding evolution complexity and posing an unnecessary and avoidable navigation risk.

The proposed revisions are necessary to establish a designated safe anchorage for recreational vessels and while mitigating the ongoing and imminent risk of collisions between recreational vessels and deep draft commercial ships using the federally maintained deep draft channel.

Based on these findings, the Southeast District Commander has determined that amendments to the existing anchorage regulation is necessary. Specifically, the Coast Guard proposes to shift the Anchorage D boundary eastward so that it does not conflict with the deep draft navigation channel. The Anchorage D boundaries will be defined by four coordinates to further reduce confusion. The District Commander is proposing this rule under the authority in 33 U.S.C. 2071 and 46 U.S.C. 70006 and 70034.

III. Discussion of the Rule

This proposed rule would amend the special anchorage regulation in 33 CFR