Treasury and IRS Announce Regulatory Relief for Taxpayers

October 8, 2019

WASHINGTON – The United States Department of the Treasury and the Internal Revenue Service (IRS) today issued proposed regulations allowing taxpayers to avoid adverse tax consequences from changing the terms of debt, derivatives, and other financial contracts to replace reference rates based on interbank offered rates (IBORs) with certain alternative reference rates. The proposed rules respond to a request for guidance from the Alternative Reference Rates Committee (ARRC), a broad-based committee of private sector and ex-officio government stakeholders convened by the Board of Governors of the Federal Reserve System in advance of the expected market transition from IBORs to alternative reference rates, such as the Secured Overnight Financing Rate (SOFR) published by the Federal Reserve Bank of New York.

"A smooth and successful transition away from LIBOR and towards an alternative rate, such as SOFR, is important for the stability of global financial markets," said Treasury Secretary Steven T. Mnuchin. "These proposed regulations provide certainty and clarity to taxpayers as they make the critical transition away from LIBOR."

These proposed regulations address the possibility that modifying a debt instrument, derivative, or other financial contract to replace a reference rate based on an IBOR could be a taxable transaction for Federal income tax purposes or could result in other tax consequences. Without this critical guidance, market participants would face significant tax uncertainties in making necessary modifications to these contracts.

Although the market shift from IBORs to alternative rates is expected to be completed by the end of 2021, this guidance is being released as soon as possible to facilitate an orderly market transition.

The proposed regulations apply to changes to affected contracts made upon the finalization of the proposed regulations. Taxpayers and their related parties optionally may apply the proposed regulations to changes that occur before then, provided that they apply the proposed regulations consistently.

Interested parties are invited to submit written comments on the proposed regulations through November 25, 2019.

Full text of the proposed regulation are available here.

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