

# Treasury and IRS Issue Proposed and Final Guidance on Foreign Tax Credits and the Base Erosion and Anti-Abuse Tax to Continue Modernizing the US Tax System

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**Washington** –The U.S. Treasury Department and IRS today issued proposed and final regulations relating to two significant international tax provisions of the Tax Cuts and Jobs Act (TCJA): foreign tax credits (FTC) and the base erosion and anti-abuse tax (BEAT).

“The Tax Cuts and Jobs Act has made America’s business environment more competitive. Tax cuts have led to companies bringing back close to a trillion dollars and creating countless opportunities for hardworking Americans,” said Secretary Steven T. Mnuchin. “Today’s guidance continues to modernize our tax system, ensure a thoughtful and deliberate transition from a worldwide towards a territorial system, protect the U.S. tax base, and provide taxpayers with the clarity they need to plan and grow their businesses.”

FTCs generally provide relief to U.S. taxpayers paying or accruing foreign income taxes. Changes to the treatment of FTCs under the TCJA included adding new foreign tax credit limitation categories, providing new foreign tax credit rules related to the enactment of the global intangible low taxed income (GILTI) regime, and eliminating the fair market value asset valuation method for interest expenses.

Today’s proposed regulations include rules on the allocation and apportionment of research and experimental deductions that will generally allow taxpayers subject to the GILTI regime to increase their use of foreign tax credits. The final regulations finalize proposed regulations issued in December 2018. Those regulations include a rule treating certain assets as 50 percent exempt for expense allocation purposes, as well as rules on applying the new FTC limitation categories. This includes a taxpayer favorable elective transition rule for carryovers of FTCs.

The BEAT provides a backstop to prevent multinational enterprises from eroding the US tax base by unduly reducing their U.S. tax liability. The final regulations released today reflect comments received from taxpayers and facilitate compliance with the statute. They provide detailed guidance regarding which taxpayers will be subject to the BEAT, how to determine base erosion payments, and the calculation of the base erosion minimum tax amount.

The new proposed regulations provide further guidance on other operational aspects of BEAT. They provide a rule for applying BEAT when taxpayers elect to waive certain deductions, and provide additional guidance for applying the BEAT to groups of related taxpayers and to partnerships.

Click [HERE](#)  and [HERE](#)  to view the FTC regulations.

Click [HERE](#) and [HERE](#) to view the BEAT regulations.

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