

Tax Insights | January 4, 2024

## Tracking Tax News You Need to Know



## IRS Proposes Rules on Bad Debt Deductions of Financial Companies

The Internal Revenue Service (IRS) has released <u>proposed rules on bad debt deductions</u> for regulated financial companies and members of regulated financial groups. The December 28 proposed rules would update the standard for determining when a debt instrument held by a regulated financial company or a member of a regulated financial group — such as some banks and insurance companies — will conclusively be deemed worthless. The proposed regulations do not include regulated investment companies and real estate investment trusts.

## IRS Issues Notice on Basis Adjustments to Previously Taxed Income

The IRS <u>published a notice</u> on December 28 regarding basis adjustments that can result when a transaction moves a foreign affiliate higher in a company's structure. The notice addresses basis adjustments where a lower-tier controlled foreign corporation (CFC) becomes an upper-tier CFC after an inbound transaction under Sections 961(a) and 961(c). In this scenario, a CFC transfers assets of another CFC, in the form of stock, to a domestic company. The IRS said the domestic corporation would normally get the basis of the stock by referencing the cost when it was in the hands of the transferor CFC.

## IRS Releases Proposed Guidance for Domestic Content Phaseouts Exceptions

The U.S. Department of the Treasury and the IRS <u>issued a notice</u> on December 28 regarding forthcoming proposed regulations on exceptions to tax credit phaseouts for entities that don't meet domestic content requirements. The guidance prescribes procedures for applicable entities to claim the exceptions to phaseouts for elective payment projects that fail to satisfy the domestic content requirements and begin construction during 2024. The rules relate to certain tax credits established through the Inflation Reduction Act of 2022.



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