

Stradley Ronon Stevens & Young, LLP
2005 Market Street
Suite 2600
Philadelphia, PA 19103-7018
215.564.8000 Telephone
215.564.8120 Facsimile
www.stradley.com

With other offices in:
Washington, D.C.
New York
New Jersey
Illinois
Delaware



www.meritas.org

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IRS Releases Guidance on Application of Blended Tax Rate for Corporations

The IRS issued Notice 2018-38, 2018-18 IRB 1 (<https://www.irs.gov/pub/irs-drop/n-18-38.pdf>), to provide guidance on the changes made by the Tax Cuts and Jobs Act (TCJA) to federal income tax rates for corporations under Section 11(b) and to the alternative minimum tax (AMT) for corporations under Section 55, and on the application of Section 15 in determining the federal income tax of a corporation for a taxable year that begins before Jan. 1, 2018, and ends after Dec. 31, 2017. (Section references are to the Internal Revenue Code of 1986, as amended.)

The blended tax rate pursuant to Section 15(a) for a corporation with a taxable year that includes Jan. 1 shall be computed by applying the rates of tax imposed under Section 11(b) prior to the change of the tax rate under the TCJA, and a tentative tax for a corporation shall be computed by applying the 21 percent rate of tax imposed under Section 11(b) as amended by the TCJA. The tax imposed under Section 11 for the taxable year that includes Jan. 1 is the sum of that proportion of each tentative tax that the number of days in each period bears to the number of days in the entire taxable year.

Additionally, a corporation with a taxable year that includes Jan. 1, but does not start on that day, must apply Section 15(a) to determine the amount of its tentative minimum tax for that taxable year. Pursuant to Section 15(a), a tentative minimum tax for the corporation shall be computed by applying the 20 percent tax rate provided under Section 55(b)(1)(B) prior to the change under the TCJA, and a tentative minimum tax shall be computed by applying the zero percent rate resulting from the repeal of the AMT for corporations. The corporation's tentative minimum tax for the taxable year that includes Jan. 1 is the sum of that proportion of each tentative minimum tax that the number of days in each period bears to the number of days in the entire taxable year.

IRS Releases Practice Unit on Exhaustion of Administration Remedies

The IRS released an international practice unit (https://www.irs.gov/pub/int_practice_units/ftc_p_10_01_02_01.pdf) on determining whether a taxpayer has exhausted all effective and practical remedies to reduce that taxpayer's foreign tax liability over time, which is one of two factors that must be met in order for a foreign tax to be creditable under Section 901.



Christopher C. Scarpa



Kristin M. McKenna

For more information, contact Christopher C. Scarpa at 215.564.8106 or cscarpa@stradley.com or Kristin M. McKenna at 215.564.8145 or kmckenna@stradley.com.