

**DESCRIPTION OF H.R. 4464,
A BILL TO MAKE PERMANENT THE
LOOK-THROUGH TREATMENT
OF PAYMENTS BETWEEN RELATED
CONTROLLED FOREIGN CORPORATIONS**

Scheduled for Markup
by the
HOUSE COMMITTEE ON WAYS AND MEANS
on April 29, 2014

Prepared by the Staff
of the
JOINT COMMITTEE ON TAXATION



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INTRODUCTION

The House Committee on Ways and Means has scheduled a committee markup of H.R. 4464, a bill to make permanent the look-through treatment of payments between related controlled foreign corporations, for April 29, 2014. This document,¹ prepared by the staff of the Joint Committee on Taxation, provides a description of the bill.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of H.R. 4464, a Bill to Make Permanent the Look-Through Treatment of Payments Between Related Controlled Foreign Corporations* (JCX-42-14), April 25, 2014. This document can also be found on our website at www.jct.gov.

**A. Look-Thru Treatment of Payments Between Related Controlled Foreign Corporations Under Foreign Personal Holding Company Rules
(sec. 954(c)(6) of the Code)**

Present Law

In general

The rules of subpart F² require U.S. shareholders with a 10-percent or greater interest in a controlled foreign corporation (“CFC”) to include certain income of the CFC (referred to as “subpart F income”) on a current basis for U.S. tax purposes, regardless of whether the income is distributed to the shareholders.

Subpart F income includes foreign base company income. One category of foreign base company income is foreign personal holding company income. For subpart F purposes, foreign personal holding company income generally includes dividends, interest, rents, and royalties, among other types of income. There are several exceptions to these rules. For example, foreign personal holding company income does not include dividends and interest received by a CFC from a related corporation organized and operating in the same foreign country in which the CFC is organized, or rents and royalties received by a CFC from a related corporation for the use of property within the country in which the CFC is organized. Interest, rent, and royalty payments do not qualify for this exclusion to the extent that such payments reduce the subpart F income of the payor. In addition, subpart F income of a CFC does not include any item of income from sources within the United States that is effectively connected with the conduct by such CFC of a trade or business within the United States (“ECI”) unless such item is exempt from taxation (or is subject to a reduced rate of tax) pursuant to a tax treaty.

The “look-thru rule”

Under the “look-thru rule,”³ dividends, interest (including factoring income that is treated as equivalent to interest under section 954(c)(1)(E)), rents, and royalties received or accrued by one CFC from a related CFC are not treated as foreign personal holding company income to the extent attributable or properly allocable to income of the payor that is neither subpart F income nor treated as ECI. For this purpose, a related CFC is a CFC that controls or is controlled by the other CFC, or a CFC that is controlled by the same person or persons that control the other CFC. Ownership of more than 50 percent of the CFC’s stock (by vote or value) constitutes control for these purposes.

The Secretary is authorized to prescribe regulations that are necessary or appropriate to carry out the look-thru rule, including such regulations as are necessary or appropriate to prevent the abuse of the purposes of such rule.

² Secs. 951-964.

³ Sec. 954(c)(6).

The look-thru rule applies to taxable years of foreign corporations beginning after December 31, 2005 and before January 1, 2014, and to taxable years of U.S. shareholders with or within which such taxable years of foreign corporations end.

Description of Proposal

The proposal makes the application of the look-thru rule permanent.

Effective Date

The proposal is effective for taxable years of foreign corporations beginning after December 31, 2013, and for taxable years of U.S. shareholders with or within which such taxable years of foreign corporations end.

B. Estimated Revenue Effects

Fiscal Years [Billions of Dollars]												
<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2014-19</u>	<u>2014-24</u>
-0.8	-1.3	-1.4	-1.5	-1.7	-1.8	-1.9	-2.1	-2.4	-2.6	-2.9	-8.4	-20.3

NOTE: Details do not add to totals due to rounding.