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IRS practice unit: Overview of section 965 "transition tax"

The IRS Large Business and International (LB&I) division publicly released a "practice unit"—part of a series of IRS examiner "job aides" and training materials intended to describe for IRS agents leading practices about tax concepts in general and specific types of transactions.

The title of this "concept unit" (as referred to by the IRS) is: *IRC 965 transition tax overview*

Read this concept unit on the **IRS practice unit webpage** (posting date of March 23, 2021).

As explained by this IRS release, section 965 requires U.S. shareholders (as defined under section 951(b)) to pay a "transition tax" on the untaxed foreign earnings of certain specified foreign corporations as if those earnings had been repatriated to the United States. Section 965 generally allows taxpayers to reduce the amount of such inclusion based on deficits in earnings and profits (E&P) with respect to other specified foreign corporations. The effective tax rates applicable to such income inclusions are adjusted by way of a participation deduction set out in section 965(c). A reduced foreign tax credit applies to the inclusion under section 965(g). Generally, a specified foreign corporation means either a controlled foreign corporation (CFC), as defined under section 957, or a foreign corporation (other than a passive foreign investment company, as defined under section 1297, that is not also a CFC) that has a U.S. shareholder that is a domestic corporation.

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