

AN ALERT FROM THE BDO FEDERAL TAX PRACTICE

# BDO KNOWS:

## FEDERAL TAX

### ► SUBJECT

## EXPIRED TAX PROVISIONS RELATING TO INTERNATIONAL AND FEDERAL TAX MAY AFFECT FIRST QUARTER REPORTING AND EFFECTIVE TAX RATE DETERMINATIONS

### ► AFFECTING

Multinational Companies Filing Financial Statements for the 2010 First Quarter

### ► DETAILS

On January 1, 2010, several taxpayer-favorable provisions of the Internal Revenue Code expired. Included in the expired provisions is section 954(c)(6), commonly referred to as the "CFC look-through rule." Section 954(c)(6) permitted multinational corporations to exclude certain types of payments between related controlled foreign corporations ("CFCs") from potential subpart F/taxable income recognition. This provision, while in force, provided a reduced effective income tax rate for many multinational reporting entities. Payments granted favorable treatment included certain intercompany interest, dividends, rents, or royalties.

In addition to the CFC look-through provision, section 954(h) ("CFC active financing exception") and section 41(credit for increasing research activities) have expired, together with some other lesser-known provisions.

► Read more



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The expiration of these sections may affect a multinational corporation's 2010 estimated annual effective income tax rate under FASB ASC Subtopic 740-270, Income Taxes – Interim Reporting. Proposed legislation to extend these provisions for one year is currently pending in the United States Congress. If the pending legislation is enacted, the extension of any of these expired provisions may be retroactive to January 1, 2010. However, retroactively enacted tax legislation cannot generally be considered in the determination of a company's estimated annual effective income tax rate until the period in which the extension is enacted.

Reporting entities must consider any expired tax provisions in determining the first quarter financial reporting for income taxes and the determination of the estimated effective tax rate for 2010.

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