

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Parts 1 and 602

[TD 9360]

RIN 1545-BC37

Guidance on Passive Foreign Investment Company (PFIC) Purging Elections

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations and removal of the temporary regulations.

SUMMARY: This document contains final regulations that provide certain elections for taxpayers that continue to be subject to the PFIC excess distribution regime of section 1291 of the Internal Revenue Code even though the foreign corporation in which they own stock is no longer treated as a PFIC under section 1297(a) or (e) of the Code. The regulations are necessary to provide guidance about purging the PFIC taint for such foreign corporations. The regulations will affect U.S. persons that hold stock in a PFIC.

DATES: Effective Date: These regulations are effective on September 27, 2007.

Applicability Date: For dates of applicability, see §§1.1291-9(k), 1.1297-3(f), 1.1298-3(f).

FOR FURTHER INFORMATION CONTACT: Paul J. Carlino at (202) 622-3840 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collection of information contained in these final regulations has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3507(d)) under control number 1545-1965.

The collection of information in these final regulations is in §1.1297-3(c)(5)(ii). This information is required to enable the IRS to verify that a taxpayer is reporting the correct amount of income or gain or is claiming the correct amount of losses, deductions or credits from that taxpayer's interest in the foreign corporation.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid control.

Books or records relating to a collection of information must be retained as long as their contents might become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by 26 U.S.C. 6103.

Background

On December 8, 2005, the IRS and the Treasury Department published final regulations under section 1298(b)(1) and removal of temporary regulations (TD 9231) in the **Federal Register** (70 FR 72914). The final regulations provided rules for a shareholder of a former PFIC (as defined in §1.1291-9(j)(2)(iv)) to make a deemed dividend or deemed sale election to purge the PFIC taint of the stock of the foreign corporation (that is, to end treatment of the stock of the foreign corporation as PFIC stock with respect to the shareholder). On December 8, 2005, the Internal Revenue Service and the Treasury Department also published temporary regulations (TD 9232)

under sections 1291(d)(2), 1297(e) and 1298(b)(1) in the **Federal Register** (70 FR 72908). A notice of proposed rulemaking (REG-133446-03) cross-referencing the temporary regulations was published in the **Federal Register** for the same day (70 FR 72952). The temporary and proposed regulations provided guidance to shareholders of section 1297(e) PFICs (as defined in §1.1291-9(j)(2)(v)) on making a deemed sale or deemed dividend election to purge the PFIC taint of the stock of the foreign corporation. The temporary and proposed regulations also provided guidance to shareholders of section 1297(e) PFICs and shareholders of former PFICs on making late purging elections (provided certain requirements are met).

No public hearing was requested or held. A comment responding to the notice of proposed rulemaking was received. After consideration of the comment, the proposed regulations are adopted as amended by this Treasury decision, and the corresponding temporary regulations are removed. The comment and revision is discussed in this preamble.

Summary of Comments and Explanation of Revisions

1. Multiple Purging Elections

Sections 1.1297-3 and 1.1298-3 provide guidance for a shareholder of a section 1297(e) PFIC and a shareholder of a former PFIC, respectively, to make a deemed sale or a deemed dividend election to purge the PFIC taint of the stock of the foreign corporation. A section 1297(e) PFIC is a foreign corporation that qualifies as a PFIC under section 1297(a) on the first day of the qualified portion of the shareholder's holding period under section 1297(e), and is treated as a PFIC with respect to the shareholder under section 1298(b)(1) because at any time during the shareholder's

holding period of the stock, other than the qualified portion, the foreign corporation was a PFIC that was not a qualified electing fund (QEF) under section 1295. (The “qualified portion” is the portion of the shareholder’s holding period which is after December 31, 1997, and during which the shareholder is a U.S. shareholder (as defined in section 951(b)) and the foreign corporation is a controlled foreign corporation.) A former PFIC is a foreign corporation that satisfies neither the income nor the asset test of section 1297(a), but whose stock held by a shareholder is treated as stock of a PFIC, pursuant to section 1298(b)(1), because the corporation was a PFIC that was not a QEF at some time during the shareholder’s holding period of the stock.

Sections 1.1297-3(e) and 1.1298-3(e) provide rules for making late purging elections when the time prescribed for making timely purging elections under §§1.1297-3(b)(3) or (c)(4) and 1.1298-3(b)(3) or (c)(4) has elapsed.

One commentator requested that the final regulations clarify whether multiple late purging elections can be made under §§1.1297-3(e) and 1.1298-3(e). The IRS and the Treasury Department believe that multiple late purging elections should be allowed to the same extent such multiple purging elections could have been made if filed timely. The final regulations are amended to clarify this rule.

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It is hereby certified that these regulations will not have a significant economic impact on a substantial number of small entities. This certification is based upon the fact that these regulations affect only U.S. persons with stock ownership in a PFIC.

There are not a substantial number of U.S. persons that are small entities that own stock in a PFIC. Further, the economic costs necessary to comply with the rule for the small entities that may be impacted are not significant. Therefore, a Regulatory Flexibility Analysis under the Regulatory Flexibility Act (5 U.S.C. chapter 6) is not required. Pursuant to section 7805(f) of the Code, the notice of proposed rulemaking preceding this final regulation was submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Drafting Information

The principal author of these regulations is Paul J. Carlino of the Office of Associate Chief Counsel (International). However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects

26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

26 CFR Part 602

Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

Accordingly, 26 CFR parts 1 and 602 are amended as follows:

PART 1--INCOME TAXES

Paragraph 1. The authority citation for part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Par. 2. Section 1.1291-9 is amended by revising paragraphs (i), (j)(2)(v) and (k) to read as follows:

§1.1291-9 Deemed dividend election.

* * * * *

(i) Election inapplicable to shareholder of a former PFIC or of a section 1297(e) PFIC. A shareholder may not make the section 1295 and deemed dividend elections if the foreign corporation is a former PFIC (as defined in paragraph (j)(2)(iv) of this section) or a section 1297(e) PFIC (as defined in paragraph (j)(2)(v) of this section) with respect to the shareholder. For the rules regarding the election by a shareholder of a former PFIC, see §1.1298-3. For the rules regarding the election by a shareholder of a section 1297(e) PFIC, see §1.1297-3.

(j) * * *

(2) * * *

(v) Section 1297(e) PFIC. A foreign corporation is a section 1297(e) PFIC with respect to a shareholder (as defined in paragraph (j)(3) of this section) if—

(A) The foreign corporation qualifies as a PFIC under section 1297(a) on the first day on which the qualified portion of the shareholder's holding period in the foreign corporation begins, as determined under section 1297(e)(2); and

(B) The stock of the foreign corporation held by the shareholder is treated as stock of a PFIC, pursuant to section 1298(b)(1), because, at any time during the shareholder's holding period of the stock, other than the qualified portion, the corporation was a PFIC that was not a QEF.

(k) Effective/applicability date. (1) The rules of this section, except for paragraph (j)(2)(v) of this section, are applicable as of April 1, 1995.

(2) The rules of paragraph (j)(2)(v) of this section are applicable as of December 8, 2005.

§1.1291-9T [Removed]

Par. 3. Section 1.1291-9T is removed.

Par. 4. Section 1.1297-0 is revised to read as follows:

§1.1297-0 Table of contents.

This section contains a listing of the headings for §1.1297-3.

§1.1297-3 Deemed sale or deemed dividend election by a U.S. person that is a shareholder of a section 1297(e) PFIC.

- (a) In general
- (b) Application of deemed sale election rules.
 - (1) Eligibility to make the deemed sale election.
 - (2) Effect of the deemed sale election.
 - (3) Time for making the deemed sale election.
 - (4) Manner of making the deemed sale election.
 - (5) Adjustments to basis.
 - (6) Treatment of holding period.
- (c) Application of deemed dividend election rules.
 - (1) Eligibility to make the deemed dividend election.
 - (2) Effect of the deemed dividend election.
 - (3) Post-1986 earnings and profits defined.
 - (4) Time for making the deemed dividend election.
 - (5) Manner of making the deemed dividend election.
 - (6) Adjustments to basis.
 - (7) Treatment of holding period.
 - (8) Coordination with section 959(e).
- (d) CFC qualification date.
- (e) Late purging elections requiring special consent.
 - (1) In general.
 - (2) Prejudice to the interests of the U.S. government.
 - (3) Procedural requirements.
 - (4) Time and manner of making late election.
 - (5) Multiple late elections.
- (f) Effective/applicability date.

§1.1297-0T [Removed]

Par. 5. Section 1.1297-0T is removed.

Par. 6. Section 1.1297-3 is added to read as follows:

§1.1297-3 Deemed sale or deemed dividend election by a U.S. person that is a shareholder of a section 1297(e) PFIC.

(a) In general. A shareholder (as defined in §1.1291-9(j)(3)) of a foreign corporation that is a section 1297(e) passive foreign investment company (PFIC) (as defined in §1.1291-9(j)(2)(v)) with respect to such shareholder, shall be treated for tax purposes as holding stock in a PFIC and therefore continues to be subject to taxation under section 1291 unless the shareholder makes a purging election under section 1298(b)(1). A purging election under section 1298(b)(1) is made under rules similar to the rules of section 1291(d)(2). Section 1291(d)(2) allows a shareholder to purge the continuing PFIC taint by either making a deemed sale election or a deemed dividend election.

(b) Application of deemed sale election rules--(1) Eligibility to make the deemed sale election. A shareholder of a foreign corporation that is a section 1297(e) PFIC with respect to such shareholder may make a deemed sale election under section 1298(b)(1) by applying the rules of this paragraph (b).

(2) Effect of the deemed sale election. A shareholder making the deemed sale election with respect to a section 1297(e) PFIC shall be treated as having sold all of its stock in the section 1297(e) PFIC for its fair market value on the controlled foreign corporation (CFC) qualification date, as defined in paragraph (d) of this section. A deemed sale under this section is treated as a disposition subject to taxation under section 1291. Thus, the gain from the deemed sale is taxed as an excess distribution received on the CFC qualification date. In the case of an election made by an indirect

shareholder, the amount of gain to be recognized and taxed as an excess distribution is the amount of gain that the direct owner of the stock of the PFIC would have realized on an actual sale or disposition of the stock of the PFIC indirectly owned by the shareholder. Any loss realized on the deemed sale is not recognized. After the deemed sale election, the shareholder's stock with respect to which the election was made under this paragraph (b) shall not be treated as stock in a PFIC and the shareholder shall not be subject to taxation under section 1291 with respect to such stock unless the qualified portion of the shareholder's holding period ends, as determined under section 1297(e)(2), and the foreign corporation thereafter qualifies as a PFIC under section 1297(a).

(3) Time for making the deemed sale election. Except as provided in paragraph (e) of this section, a shareholder shall make the deemed sale election under this paragraph (b) and section 1298(b)(1) in the shareholder's original or amended return for the taxable year that includes the CFC qualification date (election year). If the deemed sale election is made in an amended return, the return must be filed by a date that is within three years of the due date, as extended under section 6081, of the original return for the election year.

(4) Manner of making the deemed sale election. A shareholder makes the deemed sale election under this paragraph (b) by filing Form 8621, "Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund", with the return of the shareholder for the election year, reporting the gain as an excess distribution pursuant to section 1291(a) as if such sale occurred under section 1291(d)(2), and paying the tax and interest due on the excess distribution. A

shareholder that makes the deemed sale election after the due date of the return (determined without regard to extensions) for the election year must pay additional interest, pursuant to section 6601, on the amount of underpayment of tax for that year. An electing shareholder that realizes a loss shall report the loss on Form 8621, but shall not recognize the loss.

(5) Adjustments to basis. A shareholder that makes the deemed sale election increases its adjusted basis of the PFIC stock owned directly by the amount of gain recognized on the deemed sale. If the shareholder makes the deemed sale election with respect to a PFIC of which it is an indirect shareholder, the shareholder's adjusted basis of the stock or other property owned directly by the shareholder, through which ownership of the PFIC is attributed to the shareholder, is increased by the amount of gain recognized by the shareholder. In addition, solely for purposes of determining the subsequent treatment under the Internal Revenue Code (Code) and regulations of a shareholder of the stock of the PFIC, the adjusted basis of the direct owner of the stock of the PFIC is increased by the amount of gain recognized on the deemed sale. A shareholder shall not adjust the basis of any stock with respect to which the shareholder realized a loss on the deemed sale, which loss is not recognized under paragraph (b)(2) of this section.

(6) Treatment of holding period. If a shareholder of a foreign corporation has made a deemed sale election, then, for purposes of applying sections 1291 through 1298 to such shareholder after the deemed sale, the shareholder's holding period in the stock of the foreign corporation begins on the CFC qualification date, without regard to

whether the shareholder recognized gain on the deemed sale. For other purposes of the Code and regulations, this holding period rule does not apply.

(c) Application of deemed dividend election rules--(1) Eligibility to make the deemed dividend election. A shareholder of a foreign corporation that is a section 1297(e) PFIC with respect to such shareholder may make the deemed dividend election under the rules of this paragraph (c). A deemed dividend election may be made by a shareholder whose pro rata share of the post-1986 earnings and profits of the PFIC attributable to the PFIC stock held on the CFC qualification date is zero.

(2) Effect of the deemed dividend election. A shareholder making the deemed dividend election with respect to a section 1297(e) PFIC shall include in income as a dividend its pro rata share of the post-1986 earnings and profits of the PFIC attributable to all of the stock it held, directly or indirectly on the CFC qualification date, as defined in paragraph (d) of this section. The deemed dividend is taxed under section 1291 as an excess distribution received on the CFC qualification date. The excess distribution determined under this paragraph (c) is allocated under section 1291(a)(1)(A) only to each day of the shareholder's holding period of the stock during which the foreign corporation qualified as a PFIC. For purposes of the preceding sentence, the shareholder's holding period of the PFIC stock ends on the day before the CFC qualification date. After the deemed dividend election, the shareholder's stock with respect to which the election was made under this paragraph (c) shall not be treated as stock in a PFIC and the shareholder shall not be subject to taxation under section 1291 with respect to such stock unless the qualified portion of the shareholder's holding

period ends, as determined under section 1297(e)(2), and the foreign corporation thereafter qualifies as a PFIC under section 1297(a).

(3) Post-1986 earnings and profits defined--(i) In general--(A) General rule. For purposes of this section, the term post-1986 earnings and profits means the post-1986 undistributed earnings, within the meaning of section 902(c)(1) (determined without regard to section 902(c)(3)), as of the day before the CFC qualification date, that were accumulated and not distributed in taxable years of the PFIC beginning after 1986 and during which it was a PFIC, without regard to whether the earnings related to a period during which the PFIC was a CFC.

(B) Special rule. If the CFC qualification date is a day that is after the first day of the taxable year, the term post-1986 earnings and profits means the post-1986 undistributed earnings, within the meaning of section 902(c)(1) (determined without regard to section 902(c)(3)), as of the close of the taxable year that includes the CFC qualification date. For purposes of this computation, only earnings and profits accumulated in taxable years during which the foreign corporation was a PFIC shall be taken into account, but without regard to whether the earnings related to a period during which the PFIC was a CFC.

(ii) Pro rata share of post-1986 earnings and profits attributable to shareholder's stock--(A) In general. A shareholder's pro rata share of the post-1986 earnings and profits of the PFIC attributable to the stock held by the shareholder on the CFC qualification date is the amount of post-1986 earnings and profits of the PFIC accumulated during any portion of the shareholder's holding period ending at the close of the day before the CFC qualification date and attributable, under the principles of

section 1248 and the regulations under that section, to the PFIC stock held on the CFC qualification date.

(B) Reduction for previously taxed amounts. A shareholder's pro rata share of the post-1986 earnings and profits of the PFIC does not include any amount that the shareholder demonstrates to the satisfaction of the Commissioner (in the manner provided in paragraph (c)(5)(ii) of this section) was, pursuant to another provision of the law, previously included in the income of the shareholder, or of another U.S. person if the shareholder's holding period of the PFIC stock includes the period during which the stock was held by that other U.S. person.

(4) Time for making the deemed dividend election. Except as provided in paragraph (e) of this section, the shareholder shall make the deemed dividend election under this paragraph (c) and section 1298(b)(1) in the shareholder's original or amended return for the taxable year that includes the CFC qualification date (election year). If the deemed dividend election is made in an amended return, the return must be filed by a date that is within three years of the due date, as extended under section 6081, of the original return for the election year.

(5) Manner of making the deemed dividend election--(i) In general. A shareholder makes the deemed dividend election by filing Form 8621 and the attachment to Form 8621 described in paragraph (c)(5)(ii) of this section with the return of the shareholder for the election year, reporting the deemed dividend as an excess distribution pursuant to section 1291(a)(1), and paying the tax and interest due on the excess distribution. A shareholder that makes the deemed dividend election after the due date of the return (determined without regard to extensions) for the election year

must pay additional interest, pursuant to section 6601, on the amount of underpayment of tax for that year.

(ii) Attachment to Form 8621. The shareholder must attach a schedule to Form 8621 that demonstrates the calculation of the shareholder's pro rata share of the post-1986 earnings and profits of the PFIC that is treated as distributed to the shareholder on the CFC qualification date, pursuant to this paragraph (c). If the shareholder is claiming an exclusion from its pro rata share of the post-1986 earnings and profits for an amount previously included in its income or the income of another U.S. person, the shareholder must include the following information:

(A) The name, address and taxpayer identification number of each U.S. person that previously included an amount in income, the amount previously included in income by each such U.S. person, the provision of law, pursuant to which the amount was previously included in income, and the taxable year or years of inclusion of each amount.

(B) A description of the transaction pursuant to which the shareholder acquired, directly or indirectly, the stock of the PFIC from another U.S. person, and the provision of law pursuant to which the shareholder's holding period includes the period the other U.S. person held the CFC stock.

(6) Adjustments to basis. A shareholder that makes the deemed dividend election increases its adjusted basis of the stock of the PFIC owned directly by the shareholder by the amount of the deemed dividend. If the shareholder makes the deemed dividend election with respect to a PFIC of which it is an indirect shareholder, the shareholder's adjusted basis of the stock or other property owned directly by the

shareholder, through which ownership of the PFIC is attributed to the shareholder, is increased by the amount of the deemed dividend. In addition, solely for purposes of determining the subsequent treatment under the Code and regulations of a shareholder of the stock of the PFIC, the adjusted basis of the direct owner of the stock of the PFIC is increased by the amount of the deemed dividend.

(7) Treatment of holding period. If the shareholder of a foreign corporation has made a deemed dividend election, then, for purposes of applying sections 1291 through 1298 to such shareholder after the deemed dividend, the shareholder's holding period of the stock of the foreign corporation begins on the CFC qualification date. For other purposes of the Code and regulations, this holding period rule does not apply.

(8) Coordination with section 959(e). For purposes of section 959(e), the entire deemed dividend is treated as having been included in gross income under section 1248(a).

(d) CFC qualification date. For purposes of this section, the CFC qualification date is the first day on which the qualified portion of the shareholder's holding period in the section 1297(e) PFIC begins, as determined under section 1297(e).

(e) Late purging elections requiring special consent–(1) In general. This section prescribes the exclusive rules under which a shareholder of a section 1297(e) PFIC may make a section 1298(b)(1) election after the time prescribed in paragraph (b)(3) or (c)(4) of this section for making a deemed sale or a deemed dividend election has elapsed (late purging election). Therefore, a shareholder may not seek such relief under any other provisions of the law, including §301.9100-3 of this chapter. A shareholder may request the consent of the Commissioner to make a late deemed sale

or deemed dividend election for the taxable year of the shareholder that includes the CFC qualification date provided the shareholder satisfies the requirements set forth in this paragraph (e). The Commissioner may, in his discretion, grant relief under this paragraph (e) only if--

(i) In a case where the shareholder is requesting consent under this paragraph (e) after December 31, 2005, the shareholder requests such consent before a representative of the Internal Revenue Service (IRS) raises upon audit the PFIC status of the foreign corporation for any taxable year of the shareholder;

(ii) The shareholder has agreed in a closing agreement with the Commissioner, described in paragraph (e)(3) of this section, to eliminate any prejudice to the interests of the U.S. government, as determined under paragraph (e)(2) of this section, as a consequence of the shareholder's inability to file amended returns for its taxable year in which the CFC qualification date falls or an earlier closed taxable year in which the shareholder has taken a position that is inconsistent with the treatment of the foreign corporation as a PFIC; and

(iii) The shareholder satisfies the procedural requirements set forth in paragraph (e)(3) of this section.

(2) Prejudice to the interests of the U.S. government. The interests of the U.S. government are prejudiced if granting relief would result in the shareholder having a lower tax liability (other than by a de minimis amount), taking into account applicable interest charges, for the taxable year that includes the CFC qualification date (or a prior taxable year in which the taxpayer took a position on a return that was inconsistent with the treatment of the foreign corporation as a PFIC) than the shareholder would have

had if the shareholder had properly made the section 1298(b)(1) election in the time prescribed in paragraph (b)(2) or (c)(3) of this section (or had not taken a position in a return for an earlier year that was inconsistent with the status of the foreign corporation as a PFIC). The time value of money is taken into account for purposes of this computation.

(3) Procedural requirements--(i) In general. The amount due with respect to a late purging election is determined in the same manner as if the purging election had been timely filed. However, the shareholder is also liable for interest on the amount due, pursuant to section 6601, determined for the period beginning on the due date (without extensions) for the taxpayer's income tax return for the year in which the CFC qualification date falls and ending on the date the late purging election is filed with the IRS.

(ii) Filing instructions. A late purging election is made by filing a completed Form 8621-A, "Return by a Shareholder Making Certain Late Elections to End Treatment as a Passive Foreign Investment Company."

(4) Time and manner of making late election--(i) Time for making a late purging election. A shareholder may make a late purging election in the manner provided in paragraph (e)(4)(ii) of this section at any time. The date the election is filed with the IRS will determine the amount of interest due under paragraph (e)(3) of this section.

(ii) Manner of making a late purging election. A shareholder makes a late purging election by completing Form 8621-A in the manner required by that form and this section and filing that form with the Internal Revenue Service, DP 8621-A, Ogden, UT 84201.

(5) Multiple late elections—(i) General rule. A shareholder of a foreign corporation may make multiple late purging elections under the rules of this paragraph (e) or §1.1298-3(e) to the same extent such multiple purging elections could have been made if those purging elections had been filed within the time prescribed under paragraph (b)(3) or (c)(4) of this section or §1.1298-3(b)(3) or (c)(4).

(ii) Example. The rule of this paragraph (e)(5) is illustrated by the following example:

Example. (i) In 1991, X, a U.S. person, acquired a five percent interest in the stock of FC, a controlled foreign corporation, as defined in section 957(a). In years 1991, 1992, 1995, 1996 and 1997, FC satisfied either the income test or the asset test of section 1297(a). X did not make a QEF election with regard to FC. In years 1993 and 1994, FC did not satisfy either the income or the asset test of section 1291(a). In 1998, X acquired additional stock in FC such that X was a U.S. shareholder (as defined in section 951(b)) of FC.

(ii) Because FC qualified as a PFIC in 1991, FC will be treated as a PFIC with respect to all of the stock held by X, under the “once a PFIC always a PFIC” rule of section 1298(b)(1), unless X makes an election to purge the PFIC taint. Because X ceased to satisfy either the income or asset test in 1993, X could have made an election under §1.1298-3 to purge the PFIC taint of FC for that year if X had filed such an election within the time prescribed under §1.1298-3(b)(3) or (c)(4). If X had done so, the stock X held in FC would not be treated as stock in a PFIC for the years 1993 and 1994. Because X became a U.S. shareholder of FC in 1998, X then could have made a deemed sale or deemed dividend election under this section to purge the PFIC taint of FC for the years 1995 through 1997 if X had filed within the time prescribed under paragraph (b)(3) or (c)(4) of this section. Accordingly, X may make a late purging election to purge the PFIC taint of FC for the years 1991 and 1992 under the rules of §1.1298-3(e) and may also make a late purging election to purge the PFIC taint of FC for the years 1995 through 1997 under the rules of this paragraph (e).

(f) Effective/applicability date. The rules of this section are applicable as of December 8, 2005.

§1.1297-3T [Removed]

Par. 7. Section 1.1297-3T is removed.

Par. 8. Section 1.1298-0 is revised to read as follows:

§1.1298-0 Table of contents.

This section contains a listing of the paragraph headings for §1.1298-3.

§1.1298-3 Deemed sale or deemed dividend election by a U.S. person that is a shareholder of a former PFIC.

- (a) In general.
- (b) Application of deemed sale election rules.
 - (1) Eligibility to make the deemed sale election.
 - (2) Effect of the deemed sale election.
 - (3) Time for making the deemed sale election.
 - (4) Manner of making the deemed sale election.
 - (5) Adjustments to basis.
 - (6) Treatment of holding period.
- (c) Application of deemed dividend election rules.
 - (1) Eligibility to make the deemed dividend election.
 - (2) Effect of the deemed dividend election.
 - (3) Post-1986 earnings and profits defined.
 - (4) Time for making the deemed dividend election.
 - (5) Manner of making the deemed dividend election.
 - (6) Adjustments to basis.
 - (7) Treatment of holding period.
 - (8) Coordination with section 959(e).
- (d) Termination date.
- (e) Late purging elections requiring special consent.
 - (1) In general.
 - (2) Prejudice to the interests of the U.S. government.
 - (3) Procedural requirements.
 - (4) Time and manner of making late election.
 - (5) Multiple late elections.
- (f) Effective/applicability date.

§1.1298-0T [Removed]

Par. 9. Section 1.1298-0T is removed.

Par. 10. Section 1.1298-3 is amended by revising paragraphs (e) and (f) to read as follows:

§1.1298-3 Deemed sale or deemed dividend election by a U.S. person that is a shareholder of a former PFIC.

* * * * *

(e) Late purging elections requiring special consent–(1) In general. This section prescribes the exclusive rules under which a shareholder of a former PFIC may make a section 1298(b)(1) election after the time prescribed in paragraph (b)(3) or (c)(4) of this section for making a deemed sale or a deemed dividend election has elapsed (late purging election). Therefore, a shareholder may not seek such relief under any other provisions of the law, including §301.9100-3 of this chapter. A shareholder may request the consent of the Commissioner to make a late purging election for the taxable year of the shareholder that includes the termination date provided the shareholder satisfies the requirements set forth in this paragraph (e). The Commissioner may, in his discretion, grant relief under this paragraph (e) only if--

(i) In a case where the shareholder is requesting consent under this paragraph (e) after December 31, 2005, the shareholder requests such consent before a representative of the Internal Revenue Service raises upon audit the PFIC status of the foreign corporation for any taxable year of the shareholder;

(ii) The shareholder has agreed in a closing agreement with the Commissioner, described in paragraph (e)(3) of this section, to eliminate any prejudice to the interests of the U.S. government, as determined under paragraph (e)(2) of this section, as a consequence of the shareholder's inability to file amended returns for its taxable year in which the termination date falls or an earlier closed taxable year in which the shareholder has taken a position that is inconsistent with the treatment of the foreign corporation as a PFIC; and

(iii) The shareholder satisfies the procedural requirements set forth in paragraph (e)(3) of this section.

(2) Prejudice to the interests of the U.S. government. The interests of the U.S. government are prejudiced if granting relief would result in the shareholder having a lower tax liability (other than by a de minimis amount), taking into account applicable interest charges, for the taxable year that includes the termination date (or a prior taxable year in which the taxpayer took a position on a return that was inconsistent with the treatment of the foreign corporation as a PFIC) than the shareholder would have had if the shareholder had properly made the section 1298(b)(1) election in the time prescribed in paragraph (b)(2) or (c)(3) of this section (or had not taken a position in a return for an earlier year that was inconsistent with the status of the foreign corporation as a PFIC). The time value of money is taken into account for purposes of this computation.

(3) Procedural requirements--(i) In general. The amount due with respect to a late purging election is determined in the same manner as if the purging election had been timely filed. However, the shareholder is also liable for interest on the amount due, pursuant to section 6601, determined for the period beginning on the due date (without extensions) for the taxpayer's income tax return for the year in which the termination date falls and ending on the date the late purging election is filed with the IRS.

(ii) Filing instructions. A late purging election is made by filing a completed Form 8621-A, "Return by a Shareholder Making Certain Late Elections to End Treatment as a Passive Foreign Investment Company."

(4) Time and manner of making late election--(i) Time for making a late purging election. A shareholder may make a late purging election in the manner provided in

paragraph (e)(4)(ii) of this section at any time. The date the election is filed with the IRS will determine the amount of interest due under paragraph (e)(3) of this section.

(ii) Manner of making a late purging election. A shareholder makes a late purging election by completing Form 8621-A in the manner required by that form and this section and filing that form with the Internal Revenue Service, DP 8621-A, Ogden, UT 84201.

(5) Multiple late elections. For rules regarding the circumstances under which a shareholder of a foreign corporation may make multiple late purging elections under this paragraph (e) or §1.1297-3(e), see §1.1297-3(e)(5).

(f) Effective/applicability date. The rules of this section are applicable as of December 8, 2005.

§1.1298-3T [Removed]

Par. 11. Section 1.1298-3T is removed.

PART 602—OMB CONTROL NUMBERS UNDER THE PAPERWORK REDUCTION
ACT

Par. 12. The authority citation of part 602 continues to read as follows:

Authority: 26 U.S.C. 7805

Par. 13. In §602.101, paragraph (b) is amended by removing the entry for
“1.1297-3T” from the table.

Kevin M. Brown

Deputy Commissioner for Services and Enforcement.

Approved: September 17, 2007

Eric Solomon

Assistant Secretary of the Treasury (Tax Policy).