

trolled foreign corporation (or any other foreign corporation if such corporation so elects), the determination under paragraph (2) shall be based on the adjusted bases (as determined for purposes of computing earnings and profits) of its assets in lieu of their value. Such an election, once made, may be revoked only with the consent of the Secretary.” for “A foreign corporation may elect to have the determination under paragraph (2) based on the adjusted bases of its assets in lieu of their value. Such an election, once made, may be revoked only with the consent of the Secretary.”

Subsec. (b)(3). Pub. L. 103-66, §13231(d)(3), added par. (3).

1988—Subsec. (a). Pub. L. 100-647, §1018(u)(40), inserted a comma after “subpart”.

Pub. L. 100-647, §1012(p)(27), inserted at end “A foreign corporation may elect to have the determination under paragraph (2) based on the adjusted bases of its assets in lieu of their value. Such an election, once made, may be revoked only with the consent of the Secretary.”

Subsec. (b)(1). Pub. L. 100-647, §1012(p)(5), amended par. (1) generally. Prior to amendment, par. (1) read as follows: “Except as provided in paragraph (2), the term ‘passive income’ has the meaning given such term by section 904(d)(2)(A) without regard to the exceptions contained in clause (iii) thereof.”

Subsec. (b)(2). Pub. L. 100-647, §1012(p)(26), substituted “Exceptions” for “Exception for certain banks and insurance companies” in heading, and inserted sentence at end defining “related person”.

Subsec. (b)(2)(B). Pub. L. 100-647, §1012(p)(16), inserted “is predominantly engaged in an insurance business and which” after “a corporation which”.

Subsec. (b)(2)(C). Pub. L. 100-647, §1012(p)(26)(A), added subpar. (C).

Subsec. (c). Pub. L. 100-647, §1012(p)(2), inserted “(directly or indirectly)” after “foreign corporation owns”.

#### EFFECTIVE DATE OF 1998 AMENDMENT

Amendment by Pub. L. 105-206 effective, except as otherwise provided, as if included in the provisions of the Taxpayer Relief Act of 1997, Pub. L. 105-34, to which such amendment relates, see section 6024 of Pub. L. 105-206, set out as a note under section 1 of this title.

#### EFFECTIVE DATE OF 1997 AMENDMENT

Amendment by Pub. L. 105-34 applicable to taxable years of United States persons beginning after Dec. 31, 1997, and to taxable years of foreign corporations ending with or within such taxable years of United States persons, see section 1124 of Pub. L. 105-34, set out as a note under section 532 of this title.

#### EFFECTIVE DATE OF 1996 AMENDMENT

Pub. L. 104-188, title I, §1704(r)(2), Aug. 20, 1996, 110 Stat. 1887, provided that: “The amendments made by paragraph (1) [amending this section] shall take effect as if included in the amendments made by section 1235 of the Tax Reform Act of 1986 [Pub. L. 99-514].”

#### EFFECTIVE DATE OF 1993 AMENDMENT

Amendment by Pub. L. 103-66 applicable to taxable years of foreign corporations beginning after Sept. 30, 1993, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end, see section 13231(e) of Pub. L. 103-66, set out as a note under section 951 of this title.

#### EFFECTIVE DATE OF 1988 AMENDMENT

Amendment by Pub. L. 100-647 effective, except as otherwise provided, as if included in the provision of the Tax Reform Act of 1986, Pub. L. 99-514, to which such amendment relates, see section 1019(a) of Pub. L. 100-647, set out as a note under section 1 of this title.

#### EFFECTIVE DATE

Section applicable to taxable years of foreign corporations beginning after Dec. 31, 1986, see section

1235(h) of Pub. L. 99-514, set out as a note under section 1291 of this title.

## § 1298. Special rules

### (a) Attribution of ownership

For purposes of this part—

#### (1) Attribution to United States persons

This subsection—

(A) shall apply to the extent that the effect is to treat stock of a passive foreign investment company as owned by a United States person, and

(B) except to the extent provided in regulations, shall not apply to treat stock owned (or treated as owned under this subsection) by a United States person as owned by any other person.

#### (2) Corporations

##### (A) In general

If 50 percent or more in value of the stock of a corporation is owned, directly or indirectly, by or for any person, such person shall be considered as owning the stock owned directly or indirectly by or for such corporation in that proportion which the value of the stock which such person so owns bears to the value of all stock in the corporation.

##### (B) 50-percent limitation not to apply to PFIC

For purposes of determining whether a shareholder of a passive foreign investment company is treated as owning stock owned directly or indirectly by or for such company, subparagraph (A) shall be applied without regard to the 50-percent limitation contained therein. Section 1297(d) shall not apply in determining whether a corporation is a passive foreign investment company for purposes of this subparagraph.

#### (3) Partnerships, etc.

Stock owned, directly or indirectly, by or for a partnership, estate, or trust shall be considered as being owned proportionately by its partners or beneficiaries.

#### (4) Options

To the extent provided in regulations, if any person has an option to acquire stock, such stock shall be considered as owned by such person. For purposes of this paragraph, an option to acquire such an option, and each one of a series of such options, shall be considered as an option to acquire such stock.

#### (5) Successive application

Stock considered to be owned by a person by reason of the application of paragraph (2), (3), or (4) shall, for purposes of applying such paragraphs, be considered as actually owned by such person.

### (b) Other special rules

For purposes of this part—

#### (1) Time for determination

Stock held by a taxpayer shall be treated as stock in a passive foreign investment company if, at any time during the holding period of the

taxpayer with respect to such stock, such corporation (or any predecessor) was a passive foreign investment company which was not a qualified electing fund. The preceding sentence shall not apply if the taxpayer elects to recognize gain (as of the last day of the last taxable year for which the company was a passive foreign investment company (determined without regard to the preceding sentence)) under rules similar to the rules of section 1291(d)(2).

**(2) Certain corporations not treated as PFIC's during start-up year**

A corporation shall not be treated as a passive foreign investment company for the first taxable year such corporation has gross income (hereinafter in this paragraph referred to as the "start-up year") if—

(A) no predecessor of such corporation was a passive foreign investment company,

(B) it is established to the satisfaction of the Secretary that such corporation will not be a passive foreign investment company for either of the 1st 2 taxable years following the start-up year, and

(C) such corporation is not a passive foreign investment company for either of the 1st 2 taxable years following the start-up year.

**(3) Certain corporations changing businesses**

A corporation shall not be treated as a passive foreign investment company for any taxable year if—

(A) neither such corporation (nor any predecessor) was a passive foreign investment company for any prior taxable year,

(B) it is established to the satisfaction of the Secretary that—

(i) substantially all of the passive income of the corporation for the taxable year is attributable to proceeds from the disposition of 1 or more active trades or businesses, and

(ii) such corporation will not be a passive foreign investment company for either of the 1st 2 taxable years following such taxable year, and

(C) such corporation is not a passive foreign investment company for either of such 2 taxable years.

**(4) Separate interests treated as separate corporations**

Under regulations prescribed by the Secretary, where necessary to carry out the purposes of this part, separate classes of stock (or other interests) in a corporation shall be treated as interests in separate corporations.

**(5) Application of part where stock held by other entity**

**(A) In general**

Under regulations, in any case in which a United States person is treated as owning stock in a passive foreign investment company by reason of subsection (a)—

(i) any disposition by the United States person or the person owning such stock which results in the United States person being treated as no longer owning such stock, or

(ii) any distribution of property in respect of such stock to the person holding such stock,

shall be treated as a disposition by, or distribution to, the United States person with respect to the stock in the passive foreign investment company.

**(B) Amount treated in same manner as previously taxed income**

Rules similar to the rules of section 959(b) shall apply to any amount described in subparagraph (A) and to any amount included in gross income under section 1293(a) (or which would have been so included but for section 951(f))<sup>1</sup> in respect of stock which the taxpayer is treated as owning under subsection (a).

**(6) Dispositions**

Except as provided in regulations, if a taxpayer uses any stock in a passive foreign investment company as security for a loan, the taxpayer shall be treated as having disposed of such stock.

**(7) Treatment of certain foreign corporations owning stock in 25-percent owned domestic corporation**

**(A) In general**

If—

(i) a foreign corporation is subject to the tax imposed by section 531 (or waives any benefit under any treaty which would otherwise prevent the imposition of such tax), and

(ii) such foreign corporation owns at least 25 percent (by value) of the stock of a domestic corporation,

for purposes of determining whether such foreign corporation is a passive foreign investment company, any qualified stock held by such domestic corporation shall be treated as an asset which does not produce passive income (and is not held for the production of passive income) and any amount included in gross income with respect to such stock shall not be treated as passive income.

**(B) Qualified stock**

For purposes of subparagraph (A), the term "qualified stock" means any stock in a C corporation which is a domestic corporation and which is not a regulated investment company or real estate investment trust.

**(8) Treatment of certain subpart F inclusions**

Any amount included in gross income under section 951(a)(1)(B) shall be treated as a distribution received with respect to the stock.

**(c) Treatment of stock held by pooled income fund**

If stock in a passive foreign investment company is owned (or treated as owned under subsection (a)) by a pooled income fund (as defined in section 642(c)(5)) and no portion of any gain from a disposition of such stock may be allocated to income under the terms of the governing instrument of such fund—

<sup>1</sup> See References in Text notes below.

(1) section 1291 shall not apply to any gain on a disposition of such stock by such fund if (without regard to section 1291) a deduction would be allowable with respect to such gain under section 642(c)(3),

(2) section 1293 shall not apply with respect to such stock, and

(3) in determining whether section 1291 applies to any distribution in respect of such stock, subsection (d) of section 1291 shall not apply.

**(d) Treatment of certain leased property**

For purposes of this part—

**(1) In general**

Any tangible personal property with respect to which a foreign corporation is the lessee under a lease with a term of at least 12 months shall be treated as an asset actually held by such corporation.

**(2) Amount taken into account**

**(A) In general**

The amount taken into account under section 1296(a)(2)<sup>1</sup> with respect to any asset to which paragraph (1) applies shall be the unamortized portion (as determined under regulations prescribed by the Secretary) of the present value of the payments under the lease for the use of such property.

**(B) Present value**

For purposes of subparagraph (A), the present value of payments described in subparagraph (A) shall be determined in the manner provided in regulations prescribed by the Secretary—

(i) as of the beginning of the lease term, and

(ii) except as provided in such regulations, by using a discount rate equal to the applicable Federal rate determined under section 1274(d)—

(I) by substituting the lease term for the term of the debt instrument, and

(II) without regard to paragraph (2) or (3) thereof.

**(3) Exceptions**

This subsection shall not apply in any case where—

(A) the lessor is a related person (as defined in section 954(d)(3)) with respect to the foreign corporation, or

(B) a principal purpose of leasing the property was to avoid the provisions of this part.

**(e) Special rules for certain intangibles**

For purposes of this part—

**(1) Research expenditures**

The adjusted basis of the total assets of a controlled foreign corporation shall be increased by the research or experimental expenditures (within the meaning of section 174) paid or incurred by such foreign corporation during the taxable year and the preceding 2 taxable years. Any expenditure otherwise taken into account under the preceding sentence shall be reduced by the amount of any reimbursement received by the controlled foreign corporation with respect to such expenditure.

**(2) Certain licensed intangibles**

**(A) In general**

In the case of any intangible property (as defined in section 936(h)(3)(B)) with respect to which a controlled foreign corporation is a licensee and which is used by such foreign corporation in the active conduct of a trade or business, the adjusted basis of the total assets of such foreign corporation shall be increased by an amount equal to 300 percent of the payments made during the taxable year by such foreign corporation for the use of such intangible property.

**(B) Exceptions**

Subparagraph (A) shall not apply to—

(i) any payments to a foreign person if such foreign person is a related person (as defined in section 954(d)(3)) with respect to the controlled foreign corporation, and

(ii) any payments under a license if a principal purpose of entering into such license was to avoid the provisions<sup>2</sup> of this part.

**(3) Controlled foreign corporation**

For purposes of this subsection, the term “controlled foreign corporation” has the meaning given such term by section 957(a).

**(f) Reporting requirement**

Except as otherwise provided by the Secretary, each United States person who is a shareholder of a passive foreign investment company shall file an annual report containing such information as the Secretary may require.

**(g) Regulations**

The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this part.

(Added Pub. L. 99-514, title XII, §1235(a), Oct. 22, 1986, 100 Stat. 2573, §1297; amended Pub. L. 100-647, title I, §1012(p)(10), (17), (20), (22), (24), (35), (36), Nov. 10, 1988, 102 Stat. 3517-3519, 3522; Pub. L. 101-239, title VII, §7811(i)(4), Dec. 19, 1989, 103 Stat. 2410; Pub. L. 103-66, title XIII, §13231(d)(2), (4), Aug. 10, 1993, 107 Stat. 499; Pub. L. 104-188, title I, §§1501(b)(10), (11), 1703(i)(5), (6), Aug. 20, 1996, 110 Stat. 1826, 1876; renumbered §1298 and amended Pub. L. 105-34, title XI, §1122(a), (e), Aug. 5, 1997, 111 Stat. 972, 977; Pub. L. 105-206, title VI, §6011(b)(2), July 22, 1998, 112 Stat. 818; Pub. L. 110-172, §11(a)(24)(C), (f)(2), Dec. 29, 2007, 121 Stat. 2487, 2489; Pub. L. 111-147, title V, §521(a), Mar. 18, 2010, 124 Stat. 112.)

REFERENCES IN TEXT

Section 951(f), referred to in subsec. (b)(5)(B), was redesignated section 951(d) by Pub. L. 108-357, title IV, §413(c)(16), Oct. 22, 2004, 118 Stat. 1508, and subsequently was redesignated section 951(c) by Pub. L. 110-172, §11(g)(13), Dec. 29, 2007, 121 Stat. 2490.

Section 1296, referred to in subsec. (d)(2)(A), was renumbered section 1297 and a new section 1296 was added by Pub. L. 105-34, title XI, §1122(a), Aug. 5, 1997, 111 Stat. 972.

AMENDMENTS

2010—Subsecs. (f), (g). Pub. L. 111-147 added subsec. (f) and redesignated former subsec. (f) as (g).

<sup>2</sup> So in original. Probably should be “provisions”.

2007—Subsec. (a)(2)(B). Pub. L. 110-172, §11(a)(24)(C), substituted “Section 1297(d)” for “Section 1297(e)”.

Subsec. (b)(7) to (9). Pub. L. 110-172, §11(f)(2), redesignated pars. (8) and (9) as (7) and (8), respectively, and struck out former par. (7) which read as follows: “Section 1246 shall not apply to earnings and profits of any company for any taxable year beginning after December 31, 1986, if such company is a passive foreign investment company for such taxable year.”

1998—Subsec. (a)(2)(B). Pub. L. 105-206 inserted at end “Section 1297(e) shall not apply in determining whether a corporation is a passive foreign investment company for purposes of this subparagraph.”

1997—Pub. L. 105-34, §1122(a), renumbered section 1297 of this title as this section.

Subsec. (b)(1). Pub. L. 105-34, §1122(e), inserted “(determined without regard to the preceding sentence)” after “investment company” in last sentence.

1996—Subsec. (b)(9). Pub. L. 104-188, §1501(b)(10), substituted “section 951(a)(1)(B)” for “subparagraph (B) or (C) of section 951(a)(1)”.

Subsec. (d)(2). Pub. L. 104-188, §1703(i)(5)(B), in heading substituted “Amount taken into account” for “Determination of adjusted basis”.

Subsec. (d)(2)(A). Pub. L. 104-188, §1703(i)(5)(A), substituted “The amount taken into account under section 1296(a)(2) with respect to any asset” for “The adjusted basis of any asset”.

Subsec. (d)(3)(B). Pub. L. 104-188, §1501(b)(11), struck out “or section 956A” after “this part”.

Subsec. (e). Pub. L. 104-188, §1703(i)(6), inserted “For purposes of this part—” after heading.

Subsec. (e)(2)(B)(ii). Pub. L. 104-188, §1501(b)(11), struck out “or section 956A” after “this part”.

1993—Subsec. (b)(9). Pub. L. 103-66, §13231(d)(2), added par. (9).

Subsecs. (d) to (f). Pub. L. 103-66, §13231(d)(4), added subsecs. (d) and (e) and redesignated former subsec. (d) as (f).

1989—Subsec. (b)(5). Pub. L. 101-239, §7811(i)(4)(A), substituted “where stock held” for “where held” in heading.

Subsec. (b)(5)(A). Pub. L. 101-239, §7811(i)(4)(C), substituted “treated as a disposition by, or distribution to” for “treated as a disposition to” in concluding provisions.

Subsec. (b)(5)(A)(ii). Pub. L. 101-239, §7811(i)(4)(B), substituted “any distribution of” for “any disposition of”.

1988—Subsec. (a)(4). Pub. L. 100-647, §1012(p)(10)(A), added par. (4). Former par. (4) redesignated (5).

Subsec. (a)(5). Pub. L. 100-647, §1012(p)(10), redesignated par. (4) as (5) and substituted “paragraph (2), (3), or (4)” for “paragraph (2) or (3)”.

Subsec. (b)(1). Pub. L. 100-647, §1012(p)(36), substituted “investment company which” for “investment corporation which”.

Subsec. (b)(3)(A). Pub. L. 100-647, §1012(p)(22), amended subpar. (A) generally. Prior to amendment, subpar. (A) read as follows: “such corporation (and any predecessor) was not a passive foreign investment corporation for any prior taxable year.”

Subsec. (b)(5). Pub. L. 100-647, §1012(p)(17), substituted “part where held” for “section where stock held” in heading, and amended text generally. Prior to amendment, text read as follows: “Under regulations, in any case in which a United States person is treated as holding stock in a passive foreign investment company by reason of subsection (a), any disposition by the United States person or the person holding such stock which results in the United States person being treated as no longer holding such stock, shall be treated as a disposition by the United States person with respect to stock in the passive foreign investment company.”

Subsec. (b)(6). Pub. L. 100-647, §1012(p)(20), substituted “Except as provided in regulations, if a” for “If a”.

Subsec. (b)(8). Pub. L. 100-647, §1012(p)(24), added par. (8).

Subsecs. (c), (d). Pub. L. 100-647, §1012(p)(35), added subsec. (c) and redesignated former subsec. (c) as (d).

#### EFFECTIVE DATE OF 2007 AMENDMENT

Amendment by section 11(f)(2) of Pub. L. 110-172 effective as if included in the provision of the American Jobs Creation Act of 2004, Pub. L. 108-357, to which such amendment relates, see section 11(f)(4) of Pub. L. 110-172, set out as a note under section 904 of this title.

#### EFFECTIVE DATE OF 1998 AMENDMENT

Amendment by Pub. L. 105-206 effective, except as otherwise provided, as if included in the provisions of the Taxpayer Relief Act of 1997, Pub. L. 105-34, to which such amendment relates, see section 6024 of Pub. L. 105-206, set out as a note under section 1 of this title.

#### EFFECTIVE DATE OF 1997 AMENDMENT

Amendment by Pub. L. 105-34 applicable to taxable years of United States persons beginning after Dec. 31, 1997, and to taxable years of foreign corporations ending with or within such taxable years of United States persons, see section 1124 of Pub. L. 105-34, set out as a note under section 532 of this title.

#### EFFECTIVE DATE OF 1996 AMENDMENT

Amendment by section 1501(b)(10), (11) of Pub. L. 104-188 applicable to taxable years of foreign corporations beginning after Dec. 31, 1996, and to taxable years of United States shareholders within which or with which such taxable years of foreign corporations end, see section 1501(d) of Pub. L. 104-188, set out as a note under section 904 of this title.

Amendment by section 1703(i)(5), (6) of Pub. L. 104-188 effective as if included in the provision of the Revenue Reconciliation Act of 1993, Pub. L. 103-66, §§13001-13444, to which such amendment relates, see section 1703(o) of Pub. L. 104-188, set out as a note under section 39 of this title.

#### EFFECTIVE DATE OF 1993 AMENDMENT

Amendment by Pub. L. 103-66 applicable to taxable years of foreign corporations beginning after Sept. 30, 1993, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end, see section 13231(e) of Pub. L. 103-66, set out as a note under section 951 of this title.

#### EFFECTIVE DATE OF 1989 AMENDMENT

Amendment by Pub. L. 101-239 effective, except as otherwise provided, as if included in the provision of the Technical and Miscellaneous Revenue Act of 1988, Pub. L. 100-647, to which such amendment relates, see section 7817 of Pub. L. 101-239, set out as a note under section 1 of this title.

#### EFFECTIVE DATE OF 1988 AMENDMENT

Amendment by Pub. L. 100-647 effective, except as otherwise provided, as if included in the provision of the Tax Reform Act of 1986, Pub. L. 99-514, to which such amendment relates, see section 1019(a) of Pub. L. 100-647, set out as a note under section 1 of this title.

#### EFFECTIVE DATE

Section applicable to taxable years of foreign corporations beginning after Dec. 31, 1986, see section 1235(h) of Pub. L. 99-514, set out as a note under section 1291 of this title.

### Subchapter Q—Readjustment of Tax Between Years and Special Limitations

- Part I. Income averaging.
- II. Mitigation of effect of limitations and other provisions.
- [III, IV. Repealed.]
- V. Claim of right.
- [VI. Repealed.]
- VII. Recoveries of foreign expropriation losses.

#### AMENDMENTS

1997—Pub. L. 105-34, title IX, §933(b), Aug. 5, 1997, 111 Stat. 882, added item for part I.