

## International operations

Treasury issued final foreign tax credit (FTC) regulations on December 28, 2021 finalizing, with significant modifications, previously proposed regulations addressing the creditability standards for various foreign taxation amounts under the U.S. FTC system. The regulations modify long standing rules related primarily to withholding taxes on items such as royalties and services and add a standard related to a jurisdiction's transfer pricing rules needing to employ arm's length principles for in-country income taxes to be creditable.

The new standards primarily impact withholding and income taxes from certain Asian and Latin American countries. If your organization benefits from FTCs, now is the time to undertake a critical look at the jurisdictions you operate in and perform an assessment of whether taxes paid to such jurisdiction(s) are still available as FTCs.

In addition, the current economic environment has renewed the interest of many organizations to consider repatriating cash from overseas operations. Besides gaining access to cash, there could be significant U.S. tax advantages to repatriating those profits currently. If your organization has controlled foreign corporations (CFCs) and those CFCs have undistributed previously taxed earnings and profits (PTEP) from the Section 965 transition tax, Subpart F and/or global intangible low taxed income (GILTI) from principally Euro or pound sterling functional currency entities, repatriating the PTEP could unlock deductions related to foreign exchange currency fluctuations. For instance, if the Euro or pound sterling exchange rate has strengthened in favor of the U.S. dollar compared to when undistributed PTEP was generated, repatriating such PTEP now under current exchange rates will likely generate an ordinary deduction for the difference in the amount of U.S. dollars received now versus the amount that was previously included in income. Additionally, planning to mitigate foreign withholding taxes on distributions should be considered, and there may be strategies that can help achieve both objectives.