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Treasury Proposes Overhaul of Intercompany Debt Rules

April 11, 2016 | Client Update

The Internal Revenue Service (the "**IRS**") and the Treasury Department ("**Treasury**") on April 4, 2016 released proposed regulations under Section 385 of the Internal Revenue Code that, if and when finalized, will fundamentally rewrite the U.S. tax rules relating to intercompany debt. While the proposed regulations would in many respects curb the much publicized "earnings stripping" technique that has played a prominent role in "inversion" transactions, they are much broader in scope and would affect many multinational corporate groups (both U.S. and non-U.S.) in a myriad of ways. Most importantly, we believe that these regulations, if and when finalized, may result in increased cash taxes for many U.S. and non-U.S. corporations with material amounts of intercompany debt and potentially negatively impact their effective tax rates.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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