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Federal Tax ADVISORY ■

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GILTI Basis Adjustments

Treasury has proposed regulations on Section 951A, the global intangible low-taxed income (GILTI) regime, as well as related regulations for consolidated groups. As expected, the GILTI regime will operate on a consolidated basis, but not the way you might expect.

U.S. shareholders' controlled foreign corporations (CFCs) will be either a tested income CFC for the current year or a tested loss CFC. Only the tested income of its own CFCs "belongs" to a member of a consolidated group. All other tax items used in the GILTI calculations will be aggregated at the group level, and then allocated back down to the members. The allocations will be based on the fraction of the member's tested income to group tested income.

The end result will be a GILTI inclusion amount for each member, which then will claim its Section 250 deduction, and the net will be in its separately stated income.

The CFC does not directly contribute a GILTI amount to its shareholder. It only contributes tested income, for the purposes described above. Therefore, a GILTI amount must be constructed and attributed down to a CFC, based again on its tested income relative to the group tested income.

Now comes the hard part. When a CFC has a tested loss that is used to reduce the group's GILTI, the member must reduce its basis in the CFC's shares. But that use as well as use of tested losses of CFCs elsewhere in the group can cause two possibly offsetting adjustments to the basis of the group member's stock.

There is no need to detail those adjustments here because the regime is too complex to summarize or recall easily. The point is that, however difficult the determination of basis of CFCs and consolidated group members before GILTI was, it has just become a lot more difficult. Groups would be well advised to maintain the adjustments annually.

For more information, please contact Jack Cummings at 919.862.2302.

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