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KPMG report: Observations on the final Form 4626 Instructions for CAMT

Overview

The IRS released the final [Instructions for 2024 Form 4626, “Alternative Minimum Tax – Corporations”](#) for the corporate alternative minimum tax (CAMT) created by Pub. L. No. 117-169 (commonly called the “Inflation Reduction Act of 2022” (IRA)).¹ The updated instructions are substantially the same as the draft instructions dated December 11, 2024.

KPMG observation

Notable in the final instructions is the following requirement for corporations to include with Form 4626 a statement of rules applied:

Corporations must include with Form 4626 a statement describing the approach taken in completing Form 4626 and the guidance relied upon. For example, if the corporation applied provisions of the proposed regulations for certain line items, it must list the sections of the proposed regulations which it applied. If one or more line items are not based on the proposed regulations, the corporation must provide an explanation of the legal basis for the line items; for example, the statute or applicable notice provision.

Treasury and the IRS issued proposed CAMT regulations on September 13, 2024 (REG-112129-23 as corrected by 89 Fed. Reg. 104909). Read TaxNewsFlash (proposed regulations) and TaxNewsFlash (technical corrections). Several provisions of the proposed regulations (referred to as the “specified regulations”) are proposed to apply to tax years ending after September 13, 2024. However, the consolidated return provisions are proposed to apply to consolidated returns tax years for which the due date of the consolidated return (without extensions) is after the date final regulations are published in the Federal Register. The provisions other than the specified regulations and consolidated return

¹ In general, a corporation is an Applicable Corporation (and subject to CAMT) if, taking into account the aggregation rule for controlled groups, it averages \$1 billion of adjusted financial statement income (AFSI) for the preceding three-taxable-year period. Special rules apply to members of a “foreign-parented multinational group” (FPMG).

provisions are proposed to apply to tax years ending after the date final regulations are published in the Federal Register.

The requirement (by the Form 4626 Instructions) to include a statement of rules could thus be a very significant undertaking for many taxpayers.

Form 4626

The instructions follow the release of final [2024 Form 4626, “Alternative Minimum Tax – Corporations,”](#) which was released in December 2024. The 2024 instructions to Form 4626 confirm that all corporations are required to file Form 4626 unless the corporation is an S corporation, a regulated investment company (RIC), a real estate investment trust (REIT), a tax-exempt entity that is not required to file Form 990-T (*Exempt Organization Business Income Tax Return*) because it has no unrelated business taxable income (even if such entity is a member of a controlled group treated as a single employer under sections 59(k)(1)(D) and 52), or a corporation that meets and chooses to apply the Simplified Method under Prop. Treas. Reg. § 1.59-2(g)(2).²

KPMG observation

Treasury and the IRS, in Notice 2023-7 (2023-2 I.R.B. 390), previously provided a Simplified Method that a corporation could apply to determine whether it is an applicable corporation for purposes of CAMT for the first tax year beginning after December 31, 2022, which was extended to be available for any tax year that began before January 1, 2024 by Notice 2023-64 (2023-40 I.R.B. 974). However, the preamble to the proposed regulations states that taxpayers may only rely on the Notices for tax years ending on or before September 13, 2024. As noted, the Simplified Method was incorporated into the proposed regulations. However, no guidance has been issued to date extending the Simplified Method or the Form 4626 filing exemption for taxpayers who do not wish to early adopt the proposed regulations for their 2024 tax years.

New to the 2024 Form 4626 is Schedule VI, “Aggregate Pro-Rata Share of Adjusted Net Income or Loss of CFCs Described in Section 56A(c)(3),” which shows the corporation’s pro-rata share of 2024 adjusted net income or loss from its controlled foreign corporations (“CFCs”). Also new in 2024 is [Schedule A, “Pro-rata Share of Adjusted Net Income or Loss of CFCs Described in Section 56A\(c\)\(3\).”](#) which is a separate schedule to the Form 4626 which the instructions indicate should be completed for each of the three preceding tax years (i.e., for scope determination purposes).

KPMG observation

The new Schedule A appears identical to Worksheet A, which was previously in the form instructions. Similarly, Section I of Part VI appears to be the same as Worksheet B from the 2023 form instructions, but with broader applicability. While former Worksheet B was only required of Applicable Corporations, and was used to determine the CAMT FTC available from CFCs, Section I of Part VI is required of any taxpayer that is a U.S. shareholder with respect to one or more CFC and is completing any part of Form 4626, including Part I. Section II of Part VI is new, and is used to track the negative adjustment from CFCs pursuant to section 56A(c)(3)(B). Confusingly, the instructions to Part VI assume that a taxpayer will use the Schedule H-1 from Form 5471 to complete Part VI of Form 4626, but the Schedule H-1 is only required of Applicable Corporations. It is unclear whether the intention is that taxpayers that are not Applicable Corporations will use Schedule H-1 of the Form 5471 to compute the adjusted net income or

² Under the Simplified Method, the general AFSI test is reduced to \$500 million (computed with limited adjustments to AFSI). For a member of a FPMG, the U.S. AFSI test is reduced to \$50 million. As such, a corporation which meets the requirements of the Simplified Method is not an applicable corporation. See also the [Instructions for Form 1120 \(2024\)](#), Schedule K, question 29c.

loss of each CFC, notwithstanding that they are not required to file the Schedule H-1.

The IRS also released a [post release change to instructions for Form 4626](#), which reiterates that corporations are only required to calculate and pay CAMT liabilities (if any) if they are classified as applicable corporations, observing that “some small corporate taxpayers reported [CAMT] for tax year 2023 when they may not be subject to the tax.” The IRS suggests that small corporate taxpayers who reported a tax year 2023 CAMT liability review their applicable corporation status and file Form 1120-X, “Amended U.S. Corporation Income Tax Return,” to correct the tax reported, if necessary.

KPMG observation

The CAMT was originally touted as a tax on the largest of corporations, allegedly only impacting an estimated 150 corporations. However, the recent IRS release is a window into the actual application of the CAMT where all C corporations have to address the very complex provision (whether on the face of Form 1120 or using the same IRS form number that was used for reporting the former corporate alternative minimum tax that applied before 2018). Corporate taxpayers are generally caught by the need to prove one of two negatives – that they are out of scope (i.e., they are not a so-called “applicable corporation”) on the face of Form 1120 or that they are in scope as an “applicable corporation” and do not have CAMT liability on Form 4626.

One previously known issue is that small corporations and scope bubble corporations (corporations who are close to the threshold) have to undergo efforts to prove they are out of scope. The [post release change to instructions for Form 4626](#) highlights another issue—specifically that small corporations who were out of scope of CAMT, either by virtue of the safe harbor or the general scope rules, may have mistakenly paid the tax. Such corporations may be entitled to a refund. These small corporations should pay note.

Numerous other taxpayers should pay attention to this release. Any taxpayer grappling with the CAMT—large, medium, or small—should know that the regime is confusing with many pitfalls. Paying attention now may make the CAMT burdens more manageable—and prevent overpayments.

Other CAMT forms and instructions

Other recent updates to CAMT-related forms and instructions include:

- [Schedule H-1 \(Form 5471\), “Pro-Rata Share of CFC Adjusted Net Income or Loss for Corporate Alternative Minimum Tax,”](#) a schedule included in Form 5471 (previously Worksheet H-1) for each applicable CFC owned by a U.S. shareholder that is an Applicable Corporation, detailing the computation of the CFC’s adjusted net income or loss for the current tax year.
- [Instructions to Form 1065 \(2024\)](#), which indicate in the instructions for Schedule K, Other Information, Line 20c, “If the partnership is furnishing information needed for a partner to determine its distributive share of the partnership’s adjusted financial statement income, use code AX.”
- [Partner’s Instructions for Schedule K-1 \(Form 1065\)](#), which indicate in the instructions for Box 20 (Other Information), “A partnership that is furnishing information needed for a partner to determine its distributive share of the partnership’s adjusted financial statement income, will use code AX.”

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