



# TaxNewsFlash

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## Notice 2025-45: Intent to issue proposed regulations under sections 897 relating to certain F reorganizations involving transfer of USRPIs

The IRS today released [Notice 2025-45](#), announcing that the Treasury Department and IRS intend to issue proposed regulations under sections 897(d) and (e) to modify the rules under Treas. Reg. §§ 1.897-5T and 1.897-6T, Notice 89-85, and Notice 2006-46, regarding inbound asset reorganizations under section 368(a)(1)(F) ("F reorganizations") involving the transfer of United States real property interests (USRPIs) and in which the transferor corporation is a publicly traded foreign corporation and the resulting corporation is a publicly traded domestic corporation ("covered inbound F reorganizations").

According to the notice, the current rules may serve as an impediment to publicly traded foreign corporations redomiciling into the United States, and Treasury and the IRS are of the view that the redomiciliation transactions generally do not create a risk of inappropriate avoidance of section 897. Accordingly, Treasury and the IRS have determined that expansion of the current exceptions to gain recognition is appropriate in certain limited circumstances.

- The proposed regulations would clarify that, in a covered inbound F reorganization, the exception described in Notice 89-85 and Notice 2006-46 to gain recognition under Treas. Reg. § 1.897-5T(c)(4)(i) takes into account section 897(c)(3) (including constructive ownership as provided in section 897(c)(6)(C)). Thus, for example, assume a nonresident alien individual disposed of stock of the foreign transferor corporation engaging in a covered inbound F reorganization during the applicable period set forth in Notice 2006-46, but section 897(c)(3), if applied, would have treated the stock of the foreign transferor corporation as not a USRPI (if the foreign corporation were a domestic corporation on the date of the disposition). In this case, the disposition would not give rise to any amount owed by the transferor foreign corporation (assuming the conditions of Treas. Reg. § 1.897-5T(c)(4)(ii)(A) and (C) are met).
- The proposed regulations would also provide that in a covered inbound F reorganization, a distributee of the resulting domestic corporation stock that qualifies for the exception in section 897(c)(3) at the time of the distribution is treated as meeting the requirement described in Treas. Reg. § 1.897-5T(c)(4)(ii)(A) of being subject to U.S. taxation. Thus, for example, the subject to U.S. taxation requirement of Treas. Reg. § 1.897-5T(c)(4)(ii)(A) would be met if the foreign transferor corporation in a covered inbound F reorganization distributes stock of the resulting domestic corporation to a distributee shareholder that, at the time of the distribution, is a nonresident alien individual who owned 5% or less of the stock of the

resulting domestic corporation and, thus, the resulting domestic corporation stock would not constitute a USRPI under section 897(c)(3).

- Finally, the proposed regulations would revise the rules described in Treas. Reg. § 1.897-6T(a) to provide that, for purposes of section 897(e)(1), nonrecognition treatment under section 361(a) would apply in a covered inbound F reorganization to a foreign transferor corporation's transfer of a USRPI to a resulting domestic corporation in exchange for stock of the resulting domestic corporation that is not a USRPI. This exception would apply without regard to whether the foreign transferor corporation would be subject to U.S. taxation on its disposition of the stock of the resulting domestic corporation received in the exchange.

Notice 2025-45 also announces that Treasury and the IRS intend to issue proposed regulations to revise Treas. Reg. § 1.368-2(m) to clarify that qualification of a potential F reorganization (as defined in Treas. Reg. § 1.368-2(m)(1)) as an F reorganization would not be affected by a disposition of stock in either the transferor corporation or the resulting corporation if that disposition is not included in the plan of reorganization.

The proposed regulations would be proposed to apply to distributions, transfers, or exchanges occurring on or after August 19, 2025. However, taxpayers may rely on the rules for transactions occurring before that date provided they follow the rules in their entirety and in a consistent manner.

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