KPMG

Additional interim CAMT guidance (Notice 2026-7)

Initial analysis and observations

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Contents

On February 18, 2026, the U.S. Treasury Department and the IRS (collectively "Treasury") released Notice 2026-7, providing additional guidance regarding the corporate alternative minimum tax (CAMT), which generally imposes a 15% minimum tax on the adjusted financial statement income (AFSI) of certain large corporations ("applicable corporations").[1] Previously, after a series of prior interim notice guidance,[2] Treasury issued proposed CAMT regulations on September 13, 2024 (the "2024 Proposed Regulations").[3] Since the release of the 2024 Proposed Regulations, Treasury has released a series of notices in 2025 (the "2025 Notices"), which are primarily aimed at easing taxpayer burdens imposed by some of the more complex aspects of the 2024 Proposed Regulations, as well as providing additional taxpayer-favorable guidance on computing AFSI.[4] Further background information on CAMT is available on a dedicated KPMG website.

Treasury, in a press release announcing the release of Notice 2026-7, noted that it had used "authority defined by Congress" in drafting these rules and that they intend to use this guidance, as well as the 2025 Notices "to re-propose the entire CAMT regulatory framework to reflect stakeholder feedback and ensure that final rules are workable and predictable."[5]

Overview

The interim CAMT guidance in Notice 2026-7 expands taxpayer-favorable guidance and is aimed at addressing the disparities between financial accounting treatment and tax treatment in a number of areas. To address taxpayer concerns that these book-tax disparities may lead to unintended CAMT liabilities, this notice provides several new or modified AFSI adjustments that taxpayers may apply when computing AFSI (generally for CAMT liability purposes only). Of note, this notice responds to some of the taxpayer concerns regarding the likelihood that some of the favorable provisions in the One Big Beautiful Bill Act (OB3),[6] specifically the elective acceleration of the deduction of unamortized domestic research and experimental (R&E) expenditures capitalized in prior years, may result in increased CAMT liabilities in 2025 and 2026 tax years.

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[1] See sections 59(k) and (l), 56A, 55, and 53. Note that AFSI is calculated differently in determining whether a corporation is an applicable corporation or CAMT entity ("scope AFSI") and for determining CAMT liability ("liability AFSI").

[2] KPMG has published various reports and articles on such guidance to date. *See, e.g.,* KPMG report: Initial observations of Notice 2023-7; CAMTyland Adventures, Part I: How to Play the Game — Corporate Alternative Minimum Tax Basics | Tax Notes; CAMTyland Adventures, Part II: 'Right-Sizing' in the Licorice Lagoon | Tax Notes; KPMG report: Observations from Notice 2023-20; CAMTyland Adventures, Part III: 2023 Scope Bubble Corporations – Lost in Lollipop Woods; KPMG report: Initial observations on round 4 of CAMT guidance in Notice 2023-64; CAMTyland Adventures, Part IV: Retroactive Tax Extenders – Planning for a Move-Backward Card; KPMG report: Analysis and Observations on the CAMT Proposed Regulations; CAMTyland Adventures, Part V: Coping with CAMTyland Grief; Risks Abound for Corporate Alternative Minimum Tax Proposal's Early Adopters; New CAMT Notice: Reasons Taxpayers are Breathing a Sigh of Relief; KPMG Report: CAMT Caution Advised for Applicable Corporations After "Favorable" OBBB and Notice 2025-28 Changes; CAMTyland Adventures, Part VI: Notice 2025-28 – A Rainbow of Choices but Few Gumdrops; CAMTyland Adventures, Part VII: Will the OBBBA Crack Snow Flake Lake?; and New Notices Make CAMT Regime More Favorable But More Complex.

[3] REG-112129-23, as corrected by 89 Fed. Reg. 104909. Read *TaxNewsFlash* (proposed regulations) and *TaxNewsFlash* (technical corrections).

[4] *See* Notice 2025-27 (read *TaxNewsFlash*); Notice 2025-28 (read *TaxNewsFlash*); Notice 2025-46; and Notice 2025-49 (read *TaxNewsFlash* regarding Notice 2025-46 and Notice 2025-49); and IRS Priority Guidance Plan for 2025-2026 (noting that the 2025-2026 Priority Guidance Plan includes Notices providing interim guidance and describing forthcoming revisions to existing proposed CAMT regulations). The IRS also previously released revised instructions to Form 4626 on January 29, 2026. *See* Instructions for 2025 Form 4626, *Alternative Minimum Tax – Corporations*.

[5] See Treasury Issues Interim CAMT Guidance to Reduce Burdens, Support U.S. Investment, and Maximize Growth | U.S. Department of the Treasury.

[6] Pub. L. No. 119-21 (July 4, 2025) (commonly known as the One Big Beautiful Bill Act).

KPMG observation

Although the AFSI adjustments in Notice 2026-7 are generally considered to be taxpayer-favorable, it is important to note that many of the adjustments do not apply for purposes of determining scope AFSI, meaning that the number of taxpayers who are in scope of CAMT will likely not decrease significantly as a result of Notice 2026-7. A summary of the adjustments and their application to the various AFSI computations is as follows:

Adjustment	Scope AFSI	Liability AFSI
Section 3: Certain Tax Repair Deductions		X
Section 4: Eligible Intangibles		X
Section 5: Domestic Research Amortization		X
Section 6: Qualified Production Costs Under Section 181		X
Section 7: Eligible Materials & Supplies		X
Section 8: Troubled Companies	X	X
Section 9: Covered Asset Transaction Section 358 Anti-Avoidance Rule	X	X
Section 10: Transactions Involving Intangible Property Subject to Section 367(d)	X	X

In Notice 2026-7, Treasury indicates that prior to the publication of final CAMT regulations, they intend to issue proposed regulations ("forthcoming proposed regulations") that will generally include rules similar to those provided in Notice 2026-7, as well as the 2025 Notices. Taxpayers may generally apply the favorable guidance in Notice 2026-7 on a section-by-section basis for any tax year beginning before the date forthcoming proposed regulations are published in the Federal Register. Generally, taxpayers choosing to rely on a section of Notice 2026-7 must continue to do so for any subsequent tax years until other guidance or the final regulations are required to be applied. Additionally, Notice 2026-7 permits taxpayers who previously filed returns relying on guidance in Notice 2025-49 that is modified by Notice 2026-7 (i.e., the adjustment for certain goodwill amortization[7] or tax deductible repairs for regulated utilities[8]) to continue to rely on Notice 2025-49 for tax years beginning before February 18, 2026, but must follow those sections as modified by Notice 2026-7 for subsequent tax years.

KPMG observation

Applicable corporations who had CAMT liabilities in prior years would be well-served by evaluating whether the guidance in this notice should be applied to previous tax years. Taxpayers may generally incorporate the new favorable guidance on amended returns on a section-by-section basis. This may entitle certain applicable corporations who had CAMT liabilities in prior years to refunds, potentially even sizable refunds.

Certain tax repair deductions

The regular tax rules and financial accounting rules generally treat repair and maintenance costs on tangible property differently. Under the tax "tangible property regulations" (under Treas. Reg. § 1.263(a)-3) and the so-called "repair regulations" (under Treas. Reg. § 1.162-4), amounts paid or incurred for repairs and maintenance are generally deductible if they do not result in a betterment, restoration, or adaptation of the property. Under U.S. generally accepted accounting principles (GAAP), however, the same expenditures

[7] Section 9 of Notice 2025-49.
[8] Section 4 of Notice 2025-49.

are frequently capitalized and depreciated as part of the underlying asset, particularly when they extend an asset's useful life or are commingled with capital improvements in a single asset record. Because the statutory provisions (section 56A) do not explicitly provide an adjustment to AFSI for tax repairs but only provide an adjustment for tax depreciation in lieu of book depreciation for section 168 property (i.e., tangible property and certain intangible property), taxpayers would generally need to bifurcate the book depreciation with respect to each section 168 asset, isolating the portion attributable to capitalized repairs.

Notice 2025-49 generally addresses the situation for certain regulated utility companies by providing an AFSI adjustment for the costs of repairs of eligible regulatory assets that are capitalized under certain GAAP rules but deducted for tax purposes.[9] Treasury, in response to taxpayer comments on the lack of applicability of an AFSI adjustment for repairs for other industries, expands and modifies the relief in Notice 2025-49. Specifically, under Notice 2026-7, any applicable corporation may reduce liability AFSI by "deductible tax repairs" with respect to "eligible repair assets" (essentially, costs to repair section 168 property that are capitalized for AFS purposes but deducted under Treas. Reg. § 1.162-4 or recovered in another manner such as COGS for tax purposes). The corresponding book items, such as depreciation expense, impairment losses, and impairment loss reversals, with respect to the property are then disregarded in determining AFSI. Additionally, this new AFSI adjustment takes into account certain section 481(a) adjustments related to eligible repair assets to the extent such amounts are taken into account in regular taxable income for the year. Additionally, AFSI must be adjusted to account for any differences in cumulative AFSI adjustments for eligible repair assets that result from a taxpayer making an accounting method change which changes the characterization of eligible repair assets (e.g., a change from capitalizing and depreciating a repair cost to under section 263 to deducting the deductible tax repair under section 162 or vice versa) in a tax year succeeding the first tax year in which the taxpayer adopts this section of the notice.

This new AFSI adjustment is only applicable with respect to liability AFSI (i.e., not with respect to scope AFSI), and if a taxpayer makes the adjustment for deductible tax repairs, it must continue to do so for "all subsequent tax years or until such time as prescribed by the Treasury Department and the IRS in regulations or guidance published in the Internal Revenue Bulletin." Certain annual reporting requirements also apply if the taxpayer makes this new AFSI adjustment.

KPMG observation

The repairs relief will be welcomed by all taxpayers, especially those who were disappointed by the limited scope of the AFSI repairs relief provided in Notice 2025-49. Although Notice 2026-7 does not specifically address technical and procedural concerns raised with regards to the utilities-specific guidance in Notice 2025-49, it does appear that the utility industry relief is subsumed and expanded by the broader repairs relief made available by Notice 2026-7.

Eligible intangibles

Section 197 allows corporations to amortize the cost of acquired intangibles—including goodwill, customer lists, trade names, covenants not to compete, and patents—ratably over a 15-year period for regular tax purposes. Under GAAP rules, however, many of these same intangibles (particularly goodwill and indefinite-lived intangibles) are not amortized at all—they sit on the balance sheet and are tested at least annually for impairment.[10] Because the CAMT rules (section 56A) do not explicitly provide an adjustment to AFSI for section 197 amortization, regular taxable income for these items is generally lower than the corresponding book income and AFSI (unless there is an impairment charge or disposition).

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[9] See section 4 of Notice 2025-49, "AFSI Adjustment for Eligible Regulatory Assets."
[10] See Accounting Standards Codification ("ASC") 350: Intangibles—Goodwill and Other.

Notice 2025-49 provides a generally taxpayer-favorable adjustment to liability AFSI for eligible goodwill amortization deductions allowed for regular tax purposes if the goodwill is (i) amortizable under section 197 and (ii) acquired in a transaction that was announced to the public on or before October 28, 2021, or if such transaction was not announced to the public, closed and completed on or before such date.[11]

Notice 2026-7 modifies and expands the previous guidance to allow a liability AFSI adjustment for amortization under section 197 attributable to any "eligible intangible"—defined broadly to include *any* goodwill (regardless of when acquired), as well as other section 197 intangibles which are not amortizable for AFS purposes (i.e., the costs are only recoverable for AFS purposes upon impairment or disposition) (the "section 197 intangibles AFSI adjustment").

For taxpayers relying on this guidance, liability AFSI is (i) reduced by deductible tax amortization with respect to eligible intangibles (but only to the extent of the amount recovered as COGS or otherwise allowed as a deduction in computing taxable income for the tax year); (ii) adjusted to disregard covered book amortization expense and covered book expense with regard to eligible intangibles; and (iii) adjusted to take into account certain section 481(a) adjustments related to eligible intangible amortization to the extent taken into account in computing taxable income for the year. Adjustments that parallel the treatment of section 168 property in the 2024 Proposed Regulations apply upon the disposition of eligible intangibles to avoid duplication of basis recovery.

Notably, Notice 2026-7 includes special rules with regards to an eligible intangible held by a partnership, which generally mirror the rules in the 2024 Proposed Regulations with regard to qualified wireless spectrum held by a partnership that require amounts resulting from basis adjustments under section 743(b) or section 734(b) to be separately stated to a CAMT entity partner.[12] However, if a CAMT entity partner otherwise applies any adjustments provided by Notice 2025-28, the CAMT entity partner must apply any corresponding applicable modifications in determining the section 197 intangibles AFSI adjustment. As with other adjustments under Notice 2026-7, certain reporting and consistency requirements apply to the use of this new AFSI adjustment.

KPMG observation

This relief is particularly impactful for any CAMT entity which has previously made or will make acquisitions generating section 197 intangibles. As noted above, since these intangible assets are often not amortized for AFS purposes, but instead tested at least annually for impairment, taxpayers have previously expressed concern that these timing differences would result in sizeable swings in AFSI. Thus, Notice 2026-7 essentially provides a replace-book-with-tax rule with respect to costs of certain section 197 intangibles.

The breadth of this relief is noteworthy—the elective AFSI adjustment is no longer limited to goodwill and there is no longer a requirement that the intangible be acquired before a specific date.

This provision materially affects M&A-active companies across every industry, who generally have significant section 197 assets on their books.

[11] See section 9 of Notice 2025-49.
[12] See Prop. Treas. Reg. § 1.56A-16(d)(2).

Domestic research amortization

Prior to changes made by the OB3, section 174 required taxpayers to capitalize R&E expenditures paid or incurred in tax years beginning after 2021, and recover such amounts ratably over a five-year period (15-year period if the research activities are performed outside the United States), beginning with the midpoint of the tax year in which the costs were paid or incurred ("former section 174"). The OB3, however, enacted new section 174A, which permanently permits taxpayers to deduct domestic R&E expenditures paid or incurred in tax years beginning after 2024 (foreign R&E expenditures are still required to be capitalized and amortized over 15 years under section 174, as amended by the OB3). Specifically, in the case of domestic R&E expenditures, taxpayers now have the option to (1) deduct the expenditures when paid or incurred, (2) elect to capitalize and amortize the expenditures ratably over not less than 60 months beginning with the month in which the taxpayer first realizes benefits from such expenditures, or (3) elect to capitalize and amortize the expenditures ratably over a 10-year period beginning in the year the costs are incurred. Additionally, a transition adjustment in the OB3 permits taxpayers to elect to accelerate the amortization of any unamortized domestic R&E expenditures paid or incurred in tax years beginning after 2021 and before 2025 (i.e., domestic R&E expenditures previously capitalized as a result of the former section 174 rules) over a period of one or two tax years beginning with the first tax year beginning after 2024.[13]

R&E expenditures are generally expensed for financial statement purposes, but financial accounting standards may require the capitalization of certain software development costs and other specific types of R&E costs.[14] However, no adjustment to AFSI previously existed in either section 56A or the 2024 Proposed Regulations to permit taxpayers to follow the regular tax treatment of R&E expenditures (i.e., to apply sections 174 or 174A type rules for CAMT purposes). The combined effect of expensing new and previously unamortized R&E expenditures in the transition years will cause many taxpayers to see a significantly larger CAMT liability.

Accordingly, Notice 2026-7 provides an AFSI adjustment that permits taxpayers to reduce liability AFSI for tax years beginning after December 31, 2024, by any amortization deduction (excluding deductions for foreign research) that is attributable to an R&E expenditure that was capitalized under former section 174(a) between the taxpayer's tax years beginning after 2021 and before 2025, provided that the deduction reduces regular taxable income in the applicable tax years. Accordingly, taxpayers may reduce AFSI by either (i) any amortization deducted in the tax year for domestic R&E costs which were required to be capitalized under former section 174(a) and for which the taxpayer continues to amortize over the remaining applicable recovery period, or (ii) the amount of the transition adjustment provided by OB3 for taxpayers electing to accelerate such amortization. AFSI also must be adjusted to disregard any amortization of domestic R&E expenditures (including software development) that were capitalized during the 2022-2024 period and is reflected in the taxpayer's AFS for post-2024 tax years, and to account for any tax accounting method changes made with regards to domestic R&E costs in tax years beginning after 2025 if the taxpayer previously made an AFSI adjustment for such costs in a preceding tax year.

The adjustment applies for liability AFSI purposes only. Interestingly, while consistency requirements apply to this new adjustment, reporting requirements do not (i.e., an election statement is not required to be attached to the taxpayer's federal income tax return for the tax year for which the AFSI adjustment is made).

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[13] Eligible small taxpayers may elect to amend their returns for tax years subject to mandatory section 174 capitalization of domestic R&E expenditures and apply the new rules under section 174A retroactively, or may make a change in accounting method to recover the unamortized amounts. See section 70302(f) of the OB3 and Rev. Proc. 2025-28, 2025-38 I.R.B. 393.

[14] *See* ASC 730, Research and Development; ASC 350-40, Intangibles—Goodwill and Other—Internal-Use Software; ASC 985, Software; and International Accounting Standard ("IAS") 38, Intangible Assets.

KPMG observation

This provision is significant for taxpayers in a variety of industries, especially the technology, pharmaceutical, and semiconductor industries, which generate a significant amount of R&E expenditures. Without this relief, many companies would be facing CAMT liabilities driven strictly by the favorable rules provided in OB3 which would seem to be contrary to the legislative intent of restoring the domestic R&E deduction to encourage research activities in the U.S. While the notice provides relief for this concern with regards to the transition adjustment to allow taxpayers to accelerate their recovery of domestic R&E capitalized under former section 174, it does not permit taxpayers to reduce AFSI by the amount of any costs paid or incurred in years beginning after 2024 and deducted under section 174A, thus the favorable AFSI adjustment appears to be short-lived.

Noteworthy in this guidance is that a CAMT entity is not subject to a clawback adjustment for any R&E costs deducted in financial statements in prior tax years (and thus deducted in computing AFSI in those years) if the CAMT entity adopts this section of Notice 2026-7 and, accordingly, reduces its current year AFSI by the same R&E costs in the current tax year as part of the transition adjustment noted above. Taxpayers are, however, required to adjust AFSI to reverse any amortization deductions reflected in the entity's AFS in the current year in the same year the costs are subject to the transition adjustment for regular tax purposes.

Qualified production costs under section 181

Section 181 allows taxpayers to elect to immediately deduct the costs of certain "qualified" film, television, live theatrical, and sound recording productions in the year paid or incurred, subject to dollar caps that vary by production type. Under GAAP and IFRS, the same costs are generally capitalized as a single asset and depreciated once the production is placed in service.[15] This creates a potential CAMT mismatch: a current deduction is reflected in taxable income, but AFSI includes only book depreciation spread over multiple years. Compounding the complexity, costs in excess of the section 181-dollar limitation are treated as section 168 property for tax purposes, creating a bifurcated asset for CAMT purposes in such instances—part treated under the section 181 framework (and subject to book treatment for CAMT), part under the section 168 framework.[16]

Notice 2026-7 introduces a new liability AFSI adjustment for the production costs of any qualified production owned by a CAMT entity that is allowed as a deduction under section 181(a) for the tax year. Under Notice 2026-7, liability AFSI is (i) reduced by qualified production costs (but only to the extent of the amount recovered as COGS or otherwise allowed as a deduction in computing taxable income for the tax year); (ii) adjusted to disregard book COGS depreciation and other book expense reflected in the AFS with regards to qualified productions; and (iii) adjusted to take into account certain section 481(a) adjustments related to qualified production costs to the extent taken into account in computing taxable income for the year. Additionally, AFSI must be adjusted to account for any differences in cumulative AFSI adjustments for qualified production costs that result from a CAMT entity making an accounting method change which changes the amount of costs treated as qualified production costs in a tax year succeeding the first tax year in which the CAMT adopts this section of the notice (e.g., a change from capitalizing and depreciating qualified production costs to deducting such costs or vice versa).

As with other adjustments under Notice 2026-7, certain reporting and consistency requirements apply to the use of this new AFSI adjustment.

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[15] See, e.g., ASC 926, Entertainment--Films; and IAS 38—Intangible Assets.
[16] The expensing election under section 181 currently sunsets for productions beginning after December 31, 2025.

KPMG observation

The ability to account for qualified productions as one asset under the CAMT regime will be welcome news for CAMT entities in the technology, media, and telecommunications industries. If elected, this new AFSI adjustment may significantly lower liability AFSI and will help to reduce administrative burdens by eliminating the need for electing taxpayers to separately track the book basis of multiple assets for the same production after such production has been fully expensed for regular tax purposes (whether under section 181 or section 168(k)).

Eligible materials and supplies

Regulations under section 162 provide rules governing the tax treatment of materials and supplies, defined as property that (i) is a component acquired to maintain or repair a unit of property, (ii) consists of fuel, lubricants, water, and other items expected to be consumed in 12 months or less, (iii) is a unit of property[17] that has an economic useful life of 12 months or less, (iv) is a unit of property that has an acquisition or production cost of $200 or less, or (v) is identified in published guidance as materials and supplies.[18] Amounts paid to acquire or produce incidental materials and supplies for which no record of consumption or physical inventories are kept, are generally deductible for tax purposes in the tax year in which the amounts are paid or incurred.[19] The costs of non-incidental materials and supplies are generally deductible in the tax year in which such materials and supplies are first used or consumed.[20] However, in some cases the costs of these materials and supplies may be capitalized and depreciated for AFS purposes.[21]

Notice 2026-7 provides a new liability AFSI adjustment for eligible materials and supplies, defined as tangible property amounts which have an acquisition cost of $200 or less and are deductible under section 162 but capitalized and depreciated for AFS purposes. The adjustment allows for a reduction in AFSI by eligible materials and supplies tax COGS and deductible eligible materials and supplies costs. As with other provisions noted above, a corresponding adjustment is made to disregard the book depreciation attributable to those capitalized items and AFSI is adjusted to take into account certain section 481(a) adjustments related to eligible materials and supplies to the extent taken into account in computing taxable income for the year. Additionally, AFSI must be adjusted to account for any differences in cumulative AFSI adjustments for eligible materials and supplies that result from a CAMT entity making an accounting method change which changes the amount of costs treated as eligible materials and supplies in a tax year succeeding the first tax year in which the CAMT adopts this section of the notice (e.g., a change recharacterizing an item previously treated as inventory to being treated as materials and supplies).

This AFSI adjustment is disregarded for the purpose of determining applicable corporation status. As with other adjustments under Notice 2026-7, certain reporting and consistency requirements apply to the use of this new AFSI adjustment.

KPMG observation

The new AFSI adjustment for materials and supplies operates similarly to the AFSI adjustment for repairs in Notice 2026-7.

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[17] See Treas. Reg. § 1.263(a)-3(e) for rules regarding the determination of a "unit of property."
[18] Treas. Reg. § 1.162-3(c).
[19] Treas. Reg. § 1.162-3(a)(2).
[20] Treas. Reg. § 1.162-3(a)(1).
[21] See ASC 360, Property, Plant, and Equipment.

Troubled companies

Section 8 of Notice 2026-7 modifies the interim guidance for financially troubled companies provided in Notice 2025-46. Specifically, Section 8 modifies the CAMT attribute reduction rules that apply to book cancellation of debt income and the rules applicable to fresh start accounting gain and loss resulting from bankruptcy emergences. Treasury previously issued guidance for financially troubled companies in Prop. Reg. § 1.56A-21 which, as described in the KPMG Report on Notice 2025-46, was revised by Notice 2025-46.

The new interim guidance provides that, for purposes of applying the rules applicable to attribute reduction set forth in Notice 2025-46, Treas. Reg. § 1.1502-28 applies.

KPMG observation

Presumably, Treasury intended that the principles of Treas. Reg. § 1.1502-28 apply for purposes of CAMT attribute reduction, rather than Treas. Reg. § 1.1502-28 itself, which by its terms applies to regular tax attributes. Additionally, Treas. Reg. § 1.1502-28 relies on a hybrid approach of separate-entity and single-entity principles. In order to apply this framework for CAMT purposes, tax consolidated groups will need to precisely establish the amount and location of their CAMT attributes which could cause administrative burden.

The new interim guidance also generally provides that a CAMT entity emerging from bankruptcy determines the CAMT consequences of its emergence by disregarding any gain or loss reflected in its FSI and determining the CAMT basis of certain assets by disregarding any adjustments to the book basis of those assets resulting from emergence.

KPMG observation

This guidance represents another change in Treasury's approach to fresh start accounting. Notice 2023-7 and the 2024 Proposed Regulations generally provided for the exclusion of gain or loss from AFSI and for the disregard of adjustments to book basis in the determination of CAMT basis (i.e., a "nonrecognition and carryover basis" model). Notice 2025-46, however, provided for a recomputation of the fresh start gain or loss using CAMT basis (i.e., a "recognition and basis step-up (or down) model"). Notice 2026-7 would revert to the model adopted by Notice 2023-7 and the 2024 Proposed Regulations. In addition, Notice 2026-7 states that these rules pertain to fresh start accounting gain or loss "on non-transactional bankruptcy emergences," suggesting that Treasury and the IRS may have intended their application to be limited to restructurings-in-place. However, this is not entirely clear from the phrasing of the operative provision, which by its terms applies to CAMT consequences resulting from an emergence from bankruptcy, other than a discharge of indebtedness or a "domestic covered asset transaction," a defined term that describes a limited universe of transactions. Based on this phrasing, the interim guidance could be read to apply to CAMT consequences resulting from an emergence from bankruptcy in a transaction that is not a domestic covered asset transaction.

Covered asset transaction section 358 anti-avoidance rule

The 2024 Proposed Regulations include a targeted anti-abuse rule (the "Section 358 Anti-Abuse Rule") intended to prevent perceived avoidance through basis disparities in "covered asset transactions," as

defined in Prop. Treas. Reg. § 1.56A-1(b)(1).[22] The Section 358 Anti-Abuse Rule addresses situations in which a taxpayer exchanges assets with a lower CAMT basis for foreign corporation stock that carries a higher regular tax basis under section 358, thereby creating a potential mismatch between CAMT and regular tax outcomes. The rule would apply where the regular tax basis of the foreign stock exceeds its hypothetical CAMT basis (determined by reference to the CAMT basis of the transferred assets) and either (i) a principal purpose of the transaction is to avoid Applicable Corporation status or reduce CAMT liability, or (ii) the regular tax basis of the foreign stock is taken into account in determining AFSI within two years (the "Two-Year Rule"). If triggered, the transferor CAMT entity must increase AFSI in the year of receipt by the excess of the regular tax basis over the hypothetical CAMT basis.

Notice 2026-7 converts the Two-Year Rule into a rebuttable presumption. Under the notice, the presumption may be rebutted if the taxpayer can clearly establish, based on facts and circumstances, that tax avoidance was not a principal purpose of the transaction. Notice 2026-7 also sets forth the procedural requirements for rebutting the Two-Year Rule.

KPMG observation

Prior to the modifications in Notice 2026-7, the Two-Year Rule under the Section 358 Anti-Abuse Rule created the potential for overbroad results, both because of its relatively easy trigger and its "cliff effect." In particular, where assets with a regular tax–CAMT basis disparity were transferred to a foreign corporation in a section 351 exchange, the Section 358 Anti-Abuse Rule could require recognition of the full amount of the excess between regular tax basis and hypothetical CAMT basis if even $1 of regular tax basis in the foreign corporation stock received was "taken into account" within two years (e.g., by reason of a return of capital distribution under section 301(c)(2)), irrespective of whether the original transaction was undertaken with a principal purpose of avoiding CAMT. While the notice replaces the Two-Year Rule with a rebuttable presumption, it does not explicitly eliminate the cliff effect. However, the quantum of basis taken into account would appear to be a relevant fact in rebutting the avoidance presumption.

Transactions involving intangible property subject to section 367(d)

Under the 2024 Proposed Regulations, transfers involving foreign corporations that constitute a covered asset transaction (as defined in Prop. Treas. Reg. § 1.56A-1(b)(1)) generally limit AFSI adjustments to the regular tax items arising from the transaction. Covered asset transactions include tax-free (and partially tax-free) transfers and certain taxable distributions of (i) assets, stock, or securities to or by a foreign corporation,[23] and (ii) assets transferred to or by a domestic corporation if at least one transferred asset is stock of a foreign corporation.[24] In these transactions, the transferor's AFSI reflects only the regular tax items of income, gain, deduction, or loss, with gain or loss computed using CAMT basis rather than regular tax basis, while transferee basis consequences are generally determined under regular tax principles. One effect of these rules was to incorporate section 367—including section 367(d)—into the CAMT framework. Notice 2026-7 provides coordinated AFSI adjustments for transfers of intangible property subject to section 367(d). The notice requires a CAMT entity that includes an amount in gross income under section 367(d)

[22] Prop. Treas. Reg. § 1.56A-4(d)(1)(iii)(A).
[23] Transactions contemplated in this first category include such as the transfers to which sections 311, 332, 337, 351, 354, 355, 356, or 361 apply.
[24] Transactions contemplated by the second category include transfers of foreign stock to or by a domestic corporation, including transfers to which Sections 354 or 356 apply, provided the securities are exchanged for stock or securities of a foreign corporation that is a party to a reorganization.

for regular tax purposes to increase its AFSI by the same amount, substituting CAMT basis for regular tax basis where basis is relevant to the inclusion. The notice provides for a corresponding adjustment in the foreign corporation's adjusted net income or loss (ANI) (or AFSI, in the case of a foreign corporation engaged in a U.S. trade or business) by the amount of the deemed payment or reduction, but only to the extent the amount increases the AFSI of a CAMT entity.

KPMG observation

Notice 2026-7 addresses an asymmetrical outcome under section 367(d) that was not contemplated by the 2024 Proposed Regulations. Specifically, the 2024 Proposed Regulations would have, by operation of Prop. Treas. Reg. § 1.56A-4(c), provided an increase to the U.S. transferor's AFSI by reason of the deemed royalty inclusion, but did not provide a corresponding reduction to the transferee CFC's ANI, likely resulting in double taxation for CAMT purposes. The notice instead aligns the CAMT outcomes with the statute's deemed royalty regime and prevents distortions or double taxation. Notwithstanding the correction provided by the notice, the overall CAMT impact of a section 367(d) transaction may remain adverse in many cases. Even with the change proposed by Notice 2026-7, a section 367(d) transaction generally shifts income from CFC ANI—which may be offset by CFC taxes—into U.S. AFSI, which is not offset by CFC taxes for CAMT purposes. As a result, while the notice resolves an artificial asymmetry created by the 2024 Proposed Regulations, section 367(d) transfers may still increase net CAMT exposure depending on the taxpayer's foreign tax profile and overall AFSI position.

Financial reporting considerations

ASC Topic 740 requires the determination of income tax expense (benefit), income taxes receivable (payable) and deferred tax assets (liabilities) to be based upon currently enacted tax laws and rates as of the last day of the financial statement period end. Thus, entities preparing financial statements for a calendar year ending December 31, 2025, must reflect in such statements the income tax expense (benefit) as computed under the laws that existed as of December 31, 2025. The issuance of guidance such as Notice 2026-7 is considered a change in tax law. The effects of changes in tax laws or rates are generally reflected for financial accounting under U.S. GAAP in the interim period that includes the date of enactment; in other words, the period the guidance is issued. As such, taxpayers should not take into account any impacts of Notice 2026-7 in their financial statements until the reporting period that includes the date of issuance, February 18, 2026. If enactment occurs after a reporting date, but prior to issuance of the financial statements, an entity should consider whether disclosures of the change in tax law are warranted, even though the impact is reflected in a future interim period.

Conclusion

Notice 2026-7, in combination with the 2025 Notices, results in significant and welcome changes to the CAMT regime. Applicable corporations should carefully study all of the 2025 and 2026 CAMT guidance and determine which provisions of the interim guidance and/or the 2024 Proposed Regulations should be relied on for CAMT positions (whether for current, prior, or future tax years).

The new notice adopts measures that will mitigate the impact of CAMT and help provide cushion to preserve the intended favorable impacts of a number of tax changes in OB3, above and beyond domestic expensing of R&E costs. The cushion created by these new AFSI adjustments may prevent or reduce CAMT liabilities driven by the reinstatement of EBIDTA for section 163(j) purposes, and increased benefits available for foreign derived deduction eligible income. Some of the measures, such as for tax deductible repairs, will have the added benefit of reducing compliance burdens, by eliminating the need to consider capitalization elections for such amounts.

Furthermore, Notice 2026-7, similar to the 2025 Notices, illustrates that taxpayer comment letters on proposed CAMT guidance are being carefully considered by Treasury, meaning that taxpayers should continue to engage in the comment process in order to have their suggestions be considered in the development of future CAMT notices, the forthcoming proposed regulations and eventual final CAMT regulations. Treasury does not specifically request comments in response to Notice 2026-7. However, comments in response to Notice 2025-49 were previously requested by December 1, 2025, and that guidance indicated that Treasury would consider comments submitted with regards to that notice after such date. Additionally, Notice 2026-7 indicates that Treasury is continuing to evaluate comments that were previously submitted on the 2024 Proposed Regulations.

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