



# TaxNewsFlash

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## Proposed regulations: Withdrawal of applicability dates under proposed section 892 regulations issued in December 2025

The U.S. Treasury Department and IRS today released [proposed regulations](#) (CC-00349656-26) that would withdraw the applicability dates in Prop. Reg. §§ 1.892-4(d) and 1.892-5(e) of proposed regulations issued in December 2025 under section 892 ([read TaxNewsFlash](#))—relating to the taxation of income of foreign (non-U.S.) governments and international organizations from investments in the United States.

The applicability dates in the December 2025 proposed regulations provided that the regulations would apply to tax years beginning on or after the date the proposed regulations were published as final regulations. In response to comments received, Treasury and the IRS are proposing new applicability dates to ensure that certain existing foreign government holdings, as well as holdings acquired during a transition period, would not be subject to the final regulations. As stated in the preamble to these proposed regulations, Treasury and the IRS “did not intend for the 2025 proposed regulations, once finalized, to apply retroactively to existing foreign government holdings of debt and of interests in entities.” Thus, the proposed regulations would provide foreign governments with a transition period of at least 90 days after the publication date, or until the start of the first tax year after the publication date, before the debt acquisition rules in the final regulations apply.

### KPMG observation

If a debt instrument is subject to a significant modification as defined in Treas. Reg. § 1.1001-3, the holder is treated as exchanging the old debt instrument for the modified debt instrument. As a result of the modification, the holder is treated as acquiring a new debt instrument for tax purposes. It does not appear that the transition relief in these proposed regulations would extend to the modified debt instrument following a significant modification. Accordingly, a workout or other transaction resulting in a significant modification of a debt instrument acquired before the proposed regulations are finalized but modified after the end of the transition period following finalization would need to be evaluated under the standard in the final regulations.

The proposed regulations would also provide foreign governments with a transition period of at least 90 days after the publication date, or until the start of the first tax year after the publication date, before the effective control rules in the final regulations apply. For both the debt acquisition and the effective control standard, the existing rules under section 892 would continue to apply to foreign government holdings acquired before the

applicability date, and to foreign government holdings acquired on or after such date if acquired pursuant to a binding commitment entered into before such date.

### **KPMG observation**

If a foreign government has an interest in an entity acquired before the applicability date and acquires new interests after the applicability date, the transition rule provides that the rules currently in effect apply to all interests (both the newly acquired interests and interests held before the applicability date) in determining whether the government has effective control of the entity. In addition, the revised final regulations would apply, but only to interests acquired on or after the applicability date. Thus, a foreign sovereign with interests in an entity acquired before and after the applicability date will be subject to two separate tests to determine whether it is in effective control of an entity. It is not clear how the transition rule applies if a pre-existing interest in an entity is modified (in a transaction that does not give rise to a deemed exchange for tax purposes) after the applicability date.

Comments on the proposed regulations, and requests for a public hearing, are due by the date that is 60 days after the proposed regulations are published in the Federal Register, which is scheduled to be June 1, 2026.

Read a related IRS release—[IR-2026-69](#)

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