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U.S. Tax Court: Temporary regulations limiting section 245A dividends-received deduction (DRD) held invalid

The U.S. Tax Court, in a reviewed opinion, held that temporary regulations limiting the dividends-received deduction (DRD) under section 245A are invalid because they directly conflict with the plain and unambiguous text of the statute.

The case is: *Siemens Medical Solutions USA, Inc. v. Commissioner*, 167 T.C. No. 5 (July 15, 2026). Read the Tax Court's opinion

Background

Enacted under the Tax Cuts and Jobs Act (TCJA) of 2017, section 245A provides a 100% DRD for the foreign-source portion of dividends received by a domestic corporation from specified 10% owned foreign corporations, effective for distributions made after December 31, 2017. Due to different effective dates for section 245A, the mandatory repatriation tax (MRT) under section 965, and the global intangible low-taxed income (GILTI) regime under section 951A, a gap period occurred for certain fiscal year taxpayers. To address this mismatch, the Department of the Treasury and the IRS issued Temp. Treas. Reg. § 1.245A-5T, which established extraordinary disposition rules that disallowed 50% of the section 245A deduction for dividends paid out of earnings generated from certain related-party asset transfers during this gap period.

Summary

The taxpayer, a wholly owned domestic subsidiary of a foreign parent company, owned a majority interest in a controlled foreign corporation (CFC). During its tax year ended September 30, 2018, certain foreign subsidiaries of the CFC were restructured and sold to related parties, increasing the CFC's earnings and profits (E&P) by approximately €819 million. In March 2019, the CFC distributed a dividend to its shareholders, resulting in a foreign-source dividend of over $670 million to the taxpayer. The taxpayer claimed a full section 245A DRD for this dividend on its consolidated federal income tax return. The IRS subsequently disallowed almost $315 million of the deduction, asserting deficiencies of $5,581,518 for the tax year ended September 30, 2019, and $1,452,006 for the tax year ended September 30, 2021, based on the application of the extraordinary disposition rules.

The Tax Court granted summary judgment for the taxpayer, holding that the taxpayer is entitled to the full section 245A deduction because the statute unambiguously allows a 100% DRD. Following the Supreme Court's reasoning in *Loper Bright Enterprises v. Raimondo*, the court emphasized that the regulatory authority of Treasury under section 245A(g) and section 7805(a) does not permit the IRS to rewrite clear statutory terms or unilaterally restrict a deduction using criteria that appear nowhere in the statute.

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