No. 2026-220
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U.S. Tax Court: Taxpayer’s section 245A dividends received deduction limited under section 246(c)(1) to dividends on shares directly held by the taxpayer

The U.S. Tax Court today held, consistent with its prior decision in *Varian Medical Systems, Inc. v. Commissioner*, 166 T.C. No. 8 (April 8, 2026), that section 246(c)(1) limited the taxpayer’s deduction available under section 245A to amounts treated as dividends on shares directly held by the taxpayer, and in computing the taxpayer’s foreign tax credit (FTC) disallowance under section 245A(d)(1), the taxpayer’s net section 965 inclusion amount must be reduced by its section 965(c) deduction.

The taxpayer contended that the Tax Court’s decision in *Varian Medical Systems* was incorrect based on additional arguments the taxpayer in that case failed to make. Specifically, the taxpayer argued that the phrase “held by the taxpayer” in section 246(c)(1) can only mean “held by a U.S. shareholder within the meaning of section 951(b),” and because section 951(b) contemplates indirect ownership, so must section 246(c)(1). The taxpayer further argued that the Treasury regulations under section 245A contemplate a deduction for dividends received from indirectly owned foreign corporations, and thus section 246(c)(1) cannot be interpreted as precluding such a deduction, and that the legislative history supports its view. The taxpayer also proposed alternative formulas to compute the FTC disallowance under section 245A(d)(1).

The Tax Court found each of the taxpayer’s additional arguments unpersuasive and rejected them. Finding that the taxpayer’s corporate structure was identical to that of the taxpayer in *Varian Medical Systems*, the court applied the same legal analysis and reached the same ultimate holdings.

The case is: *Sysco Corporation v. Commissioner*, T.C. Memo 2026-84 (September 14, 2026). Read the Tax Court’s **opinion**

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