



BDO Seidman, LLP
Accountants and Consultants

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Subject:

Two-Year Extension of Active Financing Exception to Subpart F

International Tax Alert

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Issue:

The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), which was signed into law May 17th, provides for a two-year extension of the active financing exception under the Subpart F provisions.

Affecting:

U.S. shareholders of controlled foreign corporations (CFCs) engaged in an active banking, financing or insurance business. Historically, the exception has been particularly beneficial to domestic manufacturers financing sales of large equipment to foreign customers.

Details:

Certain types of earned, but undistributed income of CFCs are subject to current U.S. tax at the shareholder level under the subpart F provisions of the code. Under current law, income derived by a CFC in the active conduct of a banking, financing or insurance business is excluded from taxation under the Subpart F regime for years beginning after December 31, 1998 and before January 1, 2007. The TIPRA extends this exception ("active financing exception") for two years through December 31, 2008. The active financing exception allows taxpayers to defer tax on qualified income earned by CFCs until it is distributed.

How BDO Seidman Can Help:

The extension of the active financing exception may provide a continued benefit to shareholders of financial services and insurance companies as well as certain manufacturers. BDO Seidman, LLP can assist with your tax planning in this area.

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