Corporate AMT

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SJSU | Lucas College and Graduate School of Business
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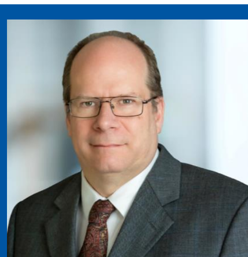
Agenda

1. CAMT Overview
2. Guidance to date
3. CAMT before & after OBBBA
4. Taxpayer considerations

With you today



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Corporate Alternative Minimum Tax (CAMT) Overview

CAMT – Overview

Basics

- **New IRC §56A** – Corporate Alternative Minimum Tax (CAMT) enacted in 2022 as part of the Inflation Reduction Act (H.R. 5376)
- Minimum tax that applies to "applicable corporations"
- Based on Adjusted Financial Statement income (AFSI)
- Similar to old AMT, any CAMT liability due creates credit carryforward against future Regular tax liability

Process

- Whether a taxpayer is an applicable corporation (Scope Determination) and the calculation of potential CAMT tax liability (Liability Determination) are both based on AFSI; AFSI is calculated differently for both.
- Determining AFSI for purposes of the CAMT isn't as simple as finding a financial statement and pulling a number; this is even true under the safe harbor promulgated in Notice 2023-7.
- Corporations not subject to the CAMT will face an increased tax compliance burden and may need to prove their out-of-scope status to their auditors or the IRS.

CAMT – Overview

Determination of CAMT liability

Start with:	**Adjusted Financial Statement Income ("AFSI")**
Multiplied by:	15% CAMT tax rate
Less:	Alternative minimum tax foreign tax credit ("AMT FTC")
Equals:	**Tentative CAMT**
Compared to:	Regular tax liability + BEAT liability
If excess:	**CAMT liability**

Need to Know

- General business credits able to be used against resulting CAMT liability (e.g., R&D credit)
- Many companies may not realize they potentially fall within the crosshairs of the CAMT. For example, a 21% effective tax rate does NOT shield a company from paying the CAMT.
- In-scope status once attained is hard to shake, even if income falls below the >$1b threshold in future years.
- Enormous uncertainty exists prior to regulations; Treasury released four Notices and a draft form to date.

Adjusted Financial Statement Income (AFSI)

- CAMT starts with financial statement income and then makes adjustments
  - AFSI - pre-tax net income or loss of the taxpayer reported on its applicable financial statement for said taxable year, <u>subject to adjustments</u>
  - Opposite of former AMT – started with taxable income and added back preferences
- Starting point is Form 10-K financial statement
  - Income is not reduced by NOL carryovers (there is consideration for financial statement NOL)
- Incorporates §451 definition of applicable financial statement (e.g., GAAP, IFRS)

AFSI – Computation

Computation of CAMT liability

Start with:	**Financial Statement Income (FSI)**
Plus/minus:	Adjustments provided under §56A(c)
	• Modifications to FSI base (e.g., different taxable years, related entities, foreign income) • Certain taxes • Depreciation • Other adjustments (e.g., special rules for Cooperatives, defined benefit pensions, qualified wireless spectrum, etc.)
Less:	Financial statement net operating loss
Equals:	**Adjusted Financial Statement Income (AFSI)**

CAMT Liability drivers

Differences Between AFSI and Taxable Income

Permanent Book-Tax Differences

FDII and GILTI deductions

Dividends-received deduction

Equity-based compensation

Purchase accounting and impairments

Mark-to-Market

Derivatives and hedging transactions recorded outside of other comprehensive income (OCI)

MTM amounts with respect to certain subsidiaries

Favorable Timing Differences

(regular tax liability deferred)

Expensing for tax but not for book

Like-kind exchanges, installment method, and similar deferral

Unfavorable Timing Differences

(regular tax liability accelerated)

Interest expense limitation (§163(j)) or amortization of R&D (§174)

Deferred or contingent liabilities

CAMT Foreign tax credit

If a taxpayer claims an FTC for a year, the CAMT FTC equals the sum of:

- Section 901 foreign taxes paid/accrued directly by the taxpayer (including through FDREs owned by the taxpayer) and taken into account on taxpayer's AFS
  - No carryforwards
  - No corollary to section 904 limitations based on source or baskets

- Pro rata share of section 901 foreign taxes paid/accrued by CFCs and taken into account on CFCs AFS
  - Limited to 15% of net CFC income included in taxpayer's AFSI
  - 5-year carryforward for excess CFC foreign taxes
  - No corollary to section 904 limitations based on source or baskets

NOTE: No rule in the statute for foreign taxes paid at the partnership level, but guidance is provided in Notice 2023-64 and the Proposed Regulations:

- Partners can claim their share of taxes paid or accrued by the partnership
- Taxes are eligible for CAMT FTCs when they are paid or accrued for USFIT purposes as long as the taxes are reflected on the AFS (including as journal entries) before or in the same year

CAMT Foreign tax credit

Sec. 901 Taxes Directly Paid/Accrued by Taxpayer + **Sec. 901 Taxes Paid/Accrued by CFCs (*limited to 15% net CFC income*)** = **CAMT FTC**

Direct FTC Example:

Entity	Foreign Taxes
Taxpayer Sec. 901 Taxes Paid/Accrued (*reported on AFS*)	$500x
FDREs Owned by Taxpayer Sec. 901 Taxes Paid/Accrued (*reported on AFS)*	$100x
Total Allowed Direct FTC Amount:	**$600x**

CFCs FTC Example:

Entity	CFC FTC Limit
Net aggregate CFC ANI	$400x
Limit Percentage	15%
CFC FTC Limit:	$60x

Entity	Foreign Taxes
CFC Sec. 901 Taxes Paid/Accrued (*reported on AFS*)	$150x
Total Allowed CFC FTC Amount:	**$60x**
CFC FTC Carryforward:	$90x

Based on the above, the taxpayer has the following FTC attributes:

- CAMT FTC Amount: $660x
- CAMT FTC Carryforward: $90x

Guidance to date

Proposed regulations

- Extensive regulatory package (REG-112129-23, September 13, 2024)
- Corrections to proposed regulations (December 26, 2024)
- Applicability dates and reliance
  - “Specified regulations”
  - Other regulations
- Written comments
- Public hearing
- Alternatives considered

Proposed regulations

1. Determination of the AFS (i.e., the "correct" financial statement)
2. Cracking and packing of an AFS, including the creation of carve out financial statements which are generally required
3. Section 52 or FPMG aggregation (for scoping purposes and determination of the correct AFS)
4. Corporate rules, including rules for covered nonrecognition transactions
5. International rules, including rules for CFC investments and investments in foreign corporations
6. Section 168 property rules, including modifications of prior notice guidance
7. UBTI and AFSI (including special considerations in the partnership context)
8. ECI and AFSI (including special considerations in the partnership context)
9. Other section 56A modifications
10. *And much more…*

Disclaimer: This is NOT a comprehensive CAMT discussion

Reliance and applicability dates

Reliance Rules

- Complicated "specified regulations" consistency requirements
- Test group consistency requirement
- Binding on future tax years
- Cannot early adopt -5 rules without early adopting -20 rules

Transition Rules

- Three approaches being considered; comments requested
  - May result in "catch up" AFSI
  - May result in permanent differences w/r/t CAMT attributes
  - May result in the need to recompute CAMT attributes

2025 Guidance to date

Notice 2025-27

- Released on June 2, 2025: Expanded safe harbor and estimated tax relief

Notice 2025-28

- Released on July 29, 2025: Partnership guidance and simplified elections

Notice 2025-46

- Released on September 30, 2025: Aligns CAMT more closely with regular tax principles for certain corporate transactions

Notice 2025-49

- Released on September 30, 2025: Reliance and applicability rules; new AFSI adjustments and increased flexibility

Notice 2025-28: Partnership guidance

Two new elective methods to calculate AFSI from partnership investments

- Top-Down Election ("TDE")
- Taxable-Income Election ("TIE")

Reasonable method to determine distributive share percentage of Modified Financial Statement Income

- Only available upon a partnership-level election

Additional methods to account for contributions to/ distributions from partnerships

- Modified -20 Method
- Full Subchapter K Method

Disregard of certain non-realizations amounts in AFSI

- Only available to extent transaction not realization event
- Later inclusion

Modification of information request and reporting requirements

- Timing changes
- No requirement for repeat requests

Modification of reliance provisions and consistency requirements

- More flexibility
- It is unclear whether making election under the Notice generally requires early adoption of -5 rules

Notice 2025-46: Corporate guidance

Domestic Corporate Transactions

- Permits AFSI (both scope and liability) to be adjusted to disregard FSI items related to certain nonrecognition transactions and instead include items included for regular tax purposes for such transactions, but computing such items by substituting CAMT basis for regular tax basis
- Eliminates the need to track "CAMT earnings" (necessitated by the 2024 Proposed Regulations)
- Purchase accounting and push down accounting adjustments may be disregarded for both CAMT basis and AFSI purposes under the Notice

Troubled Companies

- Guidance intended to more closely align CAMT rules with existing tax provisions for troubled companies, permitting a taxpayer which is either undergoing bankruptcy proceedings or insolvent to disregard some or all of the FSI resulting from discharge of indebtedness (for both scope and liability AFSI)

Tax Consolidated Groups

- Tax consolidated group concepts generally apply
- Separate return limitation year ("SRLY") rules and certain section 382 rules which apply for regular tax purposes do not apply in computing AFSI (both scope and liability)

Acquired NOLs and Built-In-Loss Items

- Relaxes the limitations imposed by the 2024 Proposed Regulations on a taxpayer's ability to use acquired FSNOLs and certain built-in losses to reduce AFSI

Notice 2025-49: Key AFSI adjustments

Mark-to-Market Guidance

- Guidance provides "FVI Exclusion Option" and "Hedge Coordination Option" elections whereby a taxpayer may disregard certain mark-to-market amounts recognized in its financial statements when computing AFSI (both scope and liability)
- These elections apply only to assets requiring periodic financial measurement, excluding impairment losses and reversals
- Exclusions do not cover certain partnerships or stocks and typically defer AFSI recognition to later tax years

Goodwill Amortization

- A new liability AFSI adjustment for certain acquired goodwill allows taxpayers to follow the regular tax treatment, permitting a deduction for amortization in computing liability AFSI where no corresponding deduction typically exists for financial statement purposes

Regular Tax Net Operating Loss Deductions

- Taxpayers that take a net operating loss ("NOL") deduction for regular tax purposes may offset liability AFSI in the same tax year with a portion of the NOL deducted for regular tax purposes where the regular tax NOL relates to a pre-2020 tax year → liability AFSI benefit is limited to the amount of pre-2020 NOLs related to depreciation of section 168 property (i.e., embedded depreciation deductions)

CAMT before & after OBBBA

CAMT – before OBBBA

- Corporations subject to CAMT
  - Foreign-parented multinational groups
  - Other applicable corporations
- CAMT foreign tax credit utilization
- Minimum tax credit management
- Balance among regular tax, BEAT, and CAMT
- Parallels with and differences from former corporate AMT

CAMT – after OBBBA

- Limited statutory amendments: intangible drilling and development costs
- Collateral impact of new section 174A
  - Current deductibility of domestic R&D expenditures
  - No adjustment to financial statement treatment in section 56A
  - Elective amortization under section 174A(c) and section 59(e)
- Impact of amendments to section 163(j) interest deduction limitation
- Impact of amendments to section 168(k) bonus depreciation
- Impact of amendments to section 250

CAMT Taxpayer considerations

Minimum tax credit (MTC) utilization

- No modifications to existing section 53 regulations
- Modeling scenarios
  - Projected perpetual CAMT liability: features of permanent difference
  - Projected regular tax > tentative minimum tax: features of timing difference
- Interaction with other return elements
  - Regular tax
  - BEAT
  - General business credits

Minimum tax credit (MTC) utilization

In year 1, assume taxpayer has GBCs of $112, no BEAT liability, but has a CAMT liability:	
Regular tax	$ 60
Tentative minimum tax (TMT)	$150
CAMT	$ 90
Allowable GBCs	$112
(75% of $150 total tax)	
Cash tax	$ 38
($150 total tax - $112 GBCs)	
CAMT credit carryforward	$ 90
GBC carryforward	$ 0
($112 - $112)	

In year 2, assume taxpayer has GBCs of $112, no BEAT liability, and no CAMT liability:	
Regular tax	$120
Tentative minimum tax (TMT)	$100
CAMT	$ 0
Allowable GBCs	$ 90
(75% of $120 total tax)	
Cash tax	$ 30
($120 total tax - $90 GBCs)	
CAMT credit carryforward to year 3	$ 90
($0 utilization since $100 TMT > $30 cash tax)	
GBC carryforward to year 3	$ 22
($112 - $90)	

Key Takeway

Taxpayer is unable to use its CAMT credit in year 2 because of the presence of GBCs. For financial accounting purposes, taxpayer will need to determine whether to record a valuation allowance for the CAMT credit, which may increase taxpayer's reported ETR.

ASC 740 considerations

- Determination of valuation allowance for MTC
- Accounting policy to consider or disregard CAMT status in assessing the need for valuation allowance on regular deferred tax assets
- Accounting policy to use the enactment date or beginning-of-year deferred taxes in determining interim period income taxes consequences

Planning considerations

- Modeling is critical – extensive interactions with other Code provisions
- Optimize balance between regular tax and tentative minimum tax
- Evolving regulatory and sub-regulatory guidance