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Foreign Tax Credit limitation by disregarding certain expenses and repealing the use of the fair market value method for allocating interest expense.

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The Internal Revenue Service has issued [final regulations](#) on the Foreign Tax Credit, a long-standing tax benefit that generally allows individuals and businesses to claim a credit for income taxes paid or accrued to foreign governments.

The Tax Cuts and Jobs Act (TCJA) made major changes to the tax law, including revamping the U.S. international tax system. Specifically, several Foreign Tax Credit provisions were changed, including repeal of section 902, which allowed deemed-

paid credits in connection with dividend distributions based on foreign subsidiaries’

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of the fair market value method for allocating interest expense.

Finally, the TCJA made systemic changes to U.S. taxation of international income that impact the Foreign Tax Credit calculation. These systemic changes include the introduction of a participation exemption through a dividends received deduction for certain dividends in section 245A and the introduction of GILTI, which subjects to current U.S. taxation foreign earnings that would have been deferred under previous law, albeit at a lower tax rate and subject to extra Foreign Tax Credit restrictions.

The IRS also issued [Proposed Regulations](#) today relating to the allocation and apportionment of deductions and creditable foreign taxes, foreign tax redeterminations, availability of Foreign Tax Credits under the Transition Tax, and the application of the Foreign Tax Credit limitation to consolidated groups.

Updates on the implementation of the TCJA can be found on the [Tax Reform page](#) of IRS.gov.

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