



## DEPARTMENT OF THE TREASURY

### Internal Revenue Service

#### 26 CFR Part 1

[CC-00349656-26]

RIN 1545-BR10

### Income of Foreign Governments and of International Organizations

**AGENCY:** Internal Revenue Service (IRS), Treasury.

**ACTION:** Notice of proposed rulemaking; partial withdrawal of proposed rulemaking.

**SUMMARY:** This document contains proposed regulations regarding the applicability dates of proposed rules relating to the taxation of the income of foreign governments from investment in the United States. This document also withdraws a portion of the proposed regulations published on December 15, 2025, relating to applicability dates.

**DATES:** Written or electronic comments and requests for a public hearing must be received by **[INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**. As of **[INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]**, proposed §§ 1.892-4(d) and 1.892-5(e), contained in the notice of proposed rulemaking published in the **Federal Register** on December 15, 2025 (90 FR 57928), are withdrawn.

**ADDRESSES:** Commenters are strongly encouraged to submit public comments electronically via the Federal eRulemaking Portal at <https://www.regulations.gov> (indicate IRS and CC-00349656-26) by following the online instructions for submitting comments. Requests for a public hearing must be submitted as prescribed in the “Comments and Requests for a Public Hearing” section. Once submitted to the Federal eRulemaking Portal, comments cannot be edited or withdrawn. The Department of the Treasury (Treasury Department) and the IRS will publish for public availability any

comments submitted to the IRS's public docket. Send paper submissions to:  
CC:PA:01:PR (CC-00349656-26), Room 5503, Internal Revenue Service, P.O. Box  
7604, Ben Franklin Station, Washington, DC 20044.

**FOR FURTHER INFORMATION CONTACT:** Concerning the proposed regulations,  
Jack Zhou at (202) 317-6938; concerning submissions of comments, requests for a  
public hearing, and access to a public hearing, Publication and Regulations Section at  
(202) 317-6901 (not toll-free numbers) or by email to *publichearings@irs.gov*  
(preferred).

**SUPPLEMENTARY INFORMATION:**

**Authority**

This document contains proposed amendments to the Income Tax Regulations  
(26 CFR part 1) under section 892 of the Internal Revenue Code (Code). These  
proposed regulations are issued under the express delegations of authority under  
sections 892(c) and 7805(a) of the Code.

**Background**

*I. 2025 Proposed Regulations under Section 892*

On December 15, 2025, the Treasury Department and the IRS published in the  
**Federal Register** (90 FR 57928) proposed regulations (the 2025 proposed regulations)  
under section 892 relating to taxation of the income of foreign governments from  
investments in the United States. The 2025 proposed regulations would provide  
guidance for determining whether an acquisition of debt is commercial activity, and  
whether a foreign government has effective control of an entity. See proposed §§ 1.892-  
4(c)(1)(ii) and 1.892-5(c)(2). The 2025 proposed regulations are proposed to apply to  
taxable years beginning on or after the date of publication of the Treasury decision  
adopting the 2025 proposed regulations as final regulations (the final regulations). See  
proposed §§ 1.892-4(d) and 1.892-5(e).

## II. *Comments on the Proposed Applicability Dates*

Following the publication of the 2025 proposed regulations, the Treasury Department and the IRS received comments requesting transitional relief with respect to the proposed applicability dates. Commenters requested that the proposed debt acquisition rules, when finalized, apply only to debt instruments acquired on or after the publication date of the final regulations (the publication date). Commenters also requested a rule that would preserve the application of existing rules under section 892 to debt acquired before the publication date and to debt acquired on or after the publication date pursuant to a legally binding commitment entered into before the publication date. Alternatively, a commenter requested an extended period of time after the publication date during which foreign governments could continue relying on the existing rules for outstanding debt instruments and commitments while they reposition their interests to accord with the final regulations. In addition, a commenter requested a transition rule that would preserve the application of existing rules for debt instruments acquired on or before 90 days after the publication date of the final regulations and for debt instruments acquired after that date but pursuant to a binding commitment entered into on or before that date.

Likewise, commenters requested that the proposed effective control rules, when finalized, apply only to rights granted (or materially expanded) on or after the publication date. Commenters recommended a rule that would preserve the application of existing rules under section 892 to arrangements in place before the publication date as well as to entity interests acquired pursuant to legally binding commitments entered into before the publication date. Alternatively, commenters requested an extended period after the publication date during which foreign governments may continue relying on the existing rules with respect to existing interests, and not have to consider renegotiating or restructuring certain legacy holdings solely due to the final regulations. Similarly, one

commenter requested a transition rule that would preserve the application of the existing rules for agreements and other arrangements entered into on or before 90 days after the publication date.

## **Explanation of Provisions**

### *I. New Proposed Applicability Dates*

As a general matter, the Treasury Department and the IRS did not intend for the 2025 proposed regulations, once finalized, to apply retroactively to existing foreign government holdings of debt and of interests in entities (collectively, foreign government holdings). In addition, in response to the comments, these proposed regulations would include additional transitional relief. Accordingly, this notice of proposed rulemaking withdraws the applicability dates in §§ 1.892-4(d) and 1.892-5(e) of the 2025 proposed regulations and proposes new applicability dates to ensure that certain existing foreign government holdings, as well as holdings acquired during a transition period, would not be subject to the final regulations. The existing rules under section 892 would continue to apply to foreign government holdings acquired before the applicability date and to foreign government holdings acquired on or after the applicability date if acquired pursuant to a binding commitment entered into before the applicability date.

These proposed regulations would address only the proposed applicability dates of the 2025 proposed regulations. The Treasury Department and the IRS recognize the importance of the issues raised by stakeholders on the substantive aspects of the 2025 proposed regulations. The Treasury Department and the IRS have received 18 comments on the 2025 proposed regulations—including with respect to the debt acquisition rules and the effective control rules—and are evaluating how to reflect these comments in the next phase of this project by taking into account established market practices and the general policy to support current and future sovereign wealth fund

investment in the United States. Any terms used but not defined in this preamble have the meanings given to them in the 2025 proposed regulations.

## *II. Applicability Date for Debt Acquisition Rules*

Proposed § 1.892-4(d)(2) would provide foreign governments with a transition period of at least 90 days after the publication date, or until the start of the first taxable year after the publication date, before the debt acquisition rules in the final regulations apply.

Under proposed § 1.892-4(d)(4), if debt is acquired before the end of the transition period or is acquired pursuant to a binding commitment entered into before the end of the transition period, the existing rules applicable before the final regulations are published would continue to apply to determine whether that acquisition is commercial activity, and, accordingly, whether income received from that debt in future periods is derived from commercial activity.

Because it is the acquisition of debt, and not the mere holding of debt, that is potentially treated as commercial activity for purposes of section 892, a debt acquirer is not engaged in commercial activity in taxable years following the taxable year of the acquisition of the debt solely by reason of holding the debt in the subsequent taxable years. Furthermore, a debt that was acquired in a previous year and held in the current year does not cause other debt acquisitions in the current year to be treated as commercial activity.

## *III. Applicability Date for Effective Control Rules*

Proposed § 1.892-5(e)(2)(i) would similarly provide foreign governments with a transition period of at least 90 days after the publication date, or until the start of the first taxable year after the publication date, before the effective control rules in the final regulations apply.

Under proposed § 1.892-5(e)(2)(ii), the effective control rules in the final regulations would not apply to a foreign government's existing interests in an entity unless the foreign government acquires, after the transition period, and excluding acquisitions pursuant to a binding commitment entered into before the end of the transition period, new interests in the entity that, by themselves, would provide the foreign government with effective control under the final regulations. Unless and until this occurs, whether that entity is a controlled commercial entity would be determined under the existing rules applicable before the final regulations are published, which will take into account all interests, regardless of when acquired.

## **Special Analyses**

### *I. Regulatory Planning and Review – Economic Analysis*

These proposed regulations are not subject to review under section 6(b) of Executive Order 12866 pursuant to the Memorandum of Agreement (July 4, 2025) between the Treasury Department and the Office of Management and Budget (OMB) regarding review of tax regulations.

### *II. Paperwork Reduction Act*

The Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3520) generally requires that a Federal agency obtain the approval of the OMB before collecting information from the public, whether such collection of information is mandatory, voluntary, or required to obtain or retain a benefit. There are no additional information collection requirements associated with these proposed regulations.

### *III. Regulatory Flexibility Act*

Pursuant to the Regulatory Flexibility Act (5 U.S.C. chapter 6), it is hereby certified that this rulemaking will not have a significant economic impact on a substantial number of small entities within the meaning of section 601(6) of the Regulatory Flexibility Act. This certification is based on the fact that the proposed regulations affect

foreign governments, including their controlled entities, with income from sources within the United States. Accordingly, the entities affected by the proposed regulations are not considered small entities, and a regulatory flexibility analysis under the Regulatory Flexibility Act is not required.

#### *IV. Section 7805(f)*

Pursuant to section 7805(f) of the Code, these proposed regulations will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business.

#### *V. Unfunded Mandates Reform Act*

Section 202 of the Unfunded Mandates Reform Act of 1995 requires that agencies assess anticipated costs and benefits and take certain other actions before issuing a final rule that includes any Federal mandate that may result in expenditures in any one year by a State, local, or Tribal government, in the aggregate, or by the private sector, of \$100 million in 1995 dollars, updated annually for inflation. The proposed regulations do not include any Federal mandate that may result in expenditures by State, local, or Tribal governments, or by the private sector in excess of that threshold.

#### *VI. Executive Order 13132: Federalism*

Executive Order 13132 (entitled “Federalism”) prohibits an agency from publishing any rule that has federalism implications if the rule either imposes substantial, direct compliance costs on State and local governments, and is not required by statute, or preempts State law, unless the agency meets the consultation and funding requirements of section 6 of the Executive order. The proposed regulations do not have federalism implications and do not impose substantial direct compliance costs on State and local governments or preempt State law within the meaning of the Executive order.

### **Comments and Requests for Public Hearing**

Before the proposed regulations are adopted as final regulations, consideration will be given to any comments that are submitted timely to the IRS as prescribed in the preamble under the **ADDRESSES** heading. The Treasury Department and the IRS request comments on all aspects of the proposed regulations. Any comments submitted will be made available at <https://www.regulations.gov> or upon request.

A public hearing will be scheduled if requested in writing by any person who submits electronic or written comments. Requests for a public hearing are also encouraged to be made electronically. If a public hearing is scheduled, notice of the date and time for the public hearing will be published in the **Federal Register**.

### **Drafting Information**

The principal authors of the proposed regulations are Jack Zhou and Peter Merkel of the Office of Associate Chief Counsel (International). However, other personnel from the Treasury Department and the IRS participated in their development.

### **Partial Withdrawal of Proposed Regulations**

Under the authority of 26 U.S.C. 892(c) and 7805, proposed §§ 1.892-4(d) and 1.892-5(e), contained in the notice of proposed rulemaking that was published in the **Federal Register** on December 15, 2025 (90 FR 57928), are withdrawn.

### **List of Subjects in 26 CFR Part 1**

Income taxes, Reporting and recordkeeping requirements.

### **Proposed Amendments to the Regulations**

Accordingly, the Treasury Department and the IRS propose to amend 26 CFR part 1 as follows:

#### **PART 1—INCOME TAXES**

**Paragraph 1.** The authority citation for part 1 continues to read in part as follows:

**Authority:** 26 U.S.C. 7805 \* \* \*

**Par. 2.** Section 1.892-4 is amended by:

- a. Redesignating paragraph (d) as paragraph (d)(1);
- b. Revising the heading of newly redesignated paragraph (d)(1); and
- c. Adding paragraphs (d)(2) introductory text and (d)(3) and (4).

The revision and additions read as follows:

**§ 1.892-4 Commercial activities.**

\* \* \* \* \*

*(d) Applicability date—(1) In general. \* \* \**

*(2) Debt acquisition applicability date.* Except as provided in paragraph (d)(3) of this section, paragraph (c)(1) of this section applies to acquisitions of debt on or after the date that is the later of:

(i) The first day of the acquirer's first taxable year beginning on or after [DATE OF PUBLICATION OF FINAL RULE], or

(ii) 90 days after [DATE OF PUBLICATION OF FINAL RULE].

*(3) Binding commitment rule.* Paragraph (c)(1) of this section does not apply to debt acquired pursuant to a binding commitment entered into before the later of the dates described in paragraphs (d)(2)(i) and (ii) of this section.

*(4) Rules for debt acquisitions and commitments before the applicability date.* Debt acquired before the later of the dates described in paragraphs (d)(2)(i) and (ii) of this section or pursuant to a binding commitment described in paragraph (d)(3) of this section shall continue to be governed by §§ 1.892-4 and 1.892-4T, as contained in 26 CFR in part 1 in effect on April 1, 2026.

**Par. 3.** Section 1.892-5 is amended by:

- a. Redesignating paragraph (e) as paragraph (e)(1);
- b. Revising the heading of newly redesignated paragraph (e)(1); and
- c. Adding paragraph (e)(2) introductory text.

The revision and addition read as follows:

## § 1.892-5 Controlled commercial entity.

\* \* \* \* \*

(e) *Applicability date*—(1) *In general.* \* \* \*

(2) *Effective control applicability date*—(i) *In general.* Except as provided in paragraph (e)(2)(ii) of this section, paragraph (c)(2) of this section applies to determine whether a foreign government has effective control of an entity on or after the date that is the later of:

(A) The first day of the foreign government's first taxable year beginning on or after [DATE OF PUBLICATION OF FINAL RULE], or

(B) 90 days after [DATE OF PUBLICATION OF FINAL RULE].

(ii) *Rules with respect to previously acquired interests.* If a foreign government holds any previously acquired interests (as defined in paragraph (e)(2)(ii)(B) of this section) in an entity, paragraph (c)(2) of this section applies to determine whether the foreign government has effective control of the entity beginning on the date on which the foreign government first acquires new controlling interests (as defined in paragraph (e)(2)(ii)(A) of this section) in the entity. Until the date that the foreign government first acquires new controlling interests in the entity, all of the foreign government's interests in that entity shall continue to be governed by §§ 1.892-5 and 1.892-5T, as contained in 26 CFR in part 1 in effect on April 1, 2026.

(A) *New controlling interests.* For purposes of this paragraph (e)(2)(ii), the term *new controlling interests* means one or more interests in an entity, other than any previously acquired interests (as defined in paragraph (e)(2)(ii)(B) of this section), that in the aggregate result in effective control of the entity under paragraph (c)(2) of this section.

(B) *Previously acquired interests.* For purposes of this paragraph (e)(2)(ii), the term *previously acquired interests* means one or more interests in an entity acquired by

a foreign government before the later of the dates described in paragraphs (e)(2)(i)(A) and (B) of this section, or acquired pursuant to a binding commitment entered into before the later of such dates.

**Frank J. Bisignano,**

*Chief Executive Officer.*

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