
Simplified Investment Adjustment Rules on The Way?

Proposed regulations that would make various changes to the consolidated return rules governing investment adjustments and earnings and profits calculations are on the way, according to Treasury Department announcements. The investment adjustment rules are located in sections 1.1502-32 and -33, specifying that each member of a consolidated group owning stock in a subsidiary must follow certain rules in adjusting the basis of stock in its subsidiaries. As we all know, these basis adjustments are designed to prevent the duplication of income and losses in groups.

A revised version of section 1.1502-32 is to address income items and distributions, and will offer guidance on tax-exempt items, net operating losses, and tax-sharing agreements. The investment adjustment rules are evidently to be designed to more closely parallel the adjustment systems under section 705, which governs the determination of basis of a partner's interest in a partnership, and Section 1367, which governs adjustments to the basis of stock of an S corporation's shareholders.

Section 1.1502-76 is meant to be amended also to address the allocation of items within and without a group when a subsidiary joins or leaves a group during the tax year.

E & P To Be Changed Too

The proposed rules would also apparently separate the earnings and profits rules from the investment adjustment rules.
