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Rev. Proc. 2021-7

1. Purpose And Nature Of Changes

.01. Purpose

.01. This revenue procedure updates Rev. Proc. 2020-7, 2020-1 I.R.B. 281, by providing a current list of those areas of the Internal Revenue Code under the jurisdiction of the Associate Chief Counsel (International) (hereinafter "the Office") relating to matters on which the Internal Revenue Service will not issue letter rulings or determination letters.

.02. Changes

.02. Section 4.01(1) related to § 367(a) (active trade or business exception) has been removed. Section 4.01(14) related to § 894 and Rev. Rul. 89-110 has been removed. Section 4.01(13) related to § 894 and beneficial ownership has been added. A new section 4.01(15) related to § 895 has been added. Other paragraphs in section 4.01 were renumbered to reflect the foregoing changes. Other changes were non-substantive in nature.

2. Background And Scope Of Application

.01. Background

.01. In the interest of sound tax administration, the Service answers inquiries from individuals and organizations regarding their status for tax purposes and the tax effects of their acts or transactions before the filing of returns or reports that are required by the Internal Revenue Code. There are, however, areas where the Service will not issue letter rulings or determination letters, either because the issues are inherently factual or for other reasons. These areas are set forth in sections 3 and 4 of this revenue procedure.

Section 3 lists areas in which letter rulings and determination letters will not be issued under any circumstances.

Section 4 lists areas in which letter rulings and determination letters ordinarily will not be issued; in these areas, unique and compelling reasons may justify issuing a letter ruling or determination letter. A taxpayer who plans to request a letter ruling or determination letter in an area described in Section 4 should first contact (by telephone or in writing) the Office to discuss the unique and compelling reasons that the taxpayer believes justify issuing the letter ruling or determination letter. Although not required, a written submission is encouraged because it will enable Office personnel to arrive more quickly at an understanding of the unique facts of each case. A taxpayer who contacts the Office by telephone may be requested to provide a written submission.

The Service may provide a general information letter in response to inquiries in areas on either the Section 3 or Section 4 list. These lists are not all-inclusive. Future revenue procedures may add or delete items. The Service may also decline to rule on an individual case for reasons peculiar to that case, and the decision will not be announced in the Internal Revenue Bulletin.

See Rev. Proc. 2021-1, Section 6.02.

.02. Scope of Application

.02. This revenue procedure does not preclude the submission of requests for technical advice to the Office from other offices of the Service.

3. Areas In Which Letter Rulings Or Determination Letters Will Not Be Issued

.01. Specific Questions and Problems

.01.

(1) Section 861.-Income from Sources Within the United States.-A method for determining the source of a pension payment to a nonresident alien individual from a trust under a defined benefit plan that is qualified under § 401(a) if the proposed method is inconsistent with §§ 4.01, 4.02, and 4.03 of Rev. Proc. 2004-37, 2004-1 C.B. 1099.

(2) Section 862.-Income from Sources Without the United States.-A method for determining the source of a pension payment to a nonresident alien individual from a trust under a defined benefit plan that is qualified under § 401(a) if the proposed method is inconsistent with §§ 4.01, 4.02, and 4.03 of Rev. Proc. 2004-37, 2004-1 C.B. 1099.

(3) Section 871(g).-Special Rules for Original Issue Discount.-Whether a debt instrument having original issue discount within the meaning of § 1273 is not an original issue discount obligation within the meaning of § 871(g)(1)(B)(i) when the instrument is payable 183 days or less from the date of original issue (without regard to the period held by the taxpayer).

(4) Section 894.-Income Affected by Treaty.-Whether a person that is a resident of a foreign country is entitled to benefits under the United States income tax treaty with that foreign country pursuant to the limitation on benefits article. However, the Service may rule regarding the legal interpretation of a particular provision within the relevant limitation on benefits article.

(5) Section 954.-Foreign Base Company Income.-The effective rate of tax that a foreign country will impose on income.

(6) Section 954.-Foreign Base Company Income.-Whether the facts and circumstances show that a controlled foreign corporation makes a substantial contribution through the activities of its employees to the manufacture, production, or construction of the personal property sold within the meaning of § 1.954-3(a)(4)(iv).

(7) Sections 7701(b) and 894.-Definition of Resident Alien and Nonresident Alien.-Whether an alien individual, whether or not a dual resident alien, is a nonresident of the United States, including whether the individual has met the requirements of the substantial presence test or exceptions thereto, or whether the alien is solely a nonresident under a United States income tax treaty. However, the Service may rule regarding the legal interpretation of a particular provision of § 7701(b) or the regulations thereunder.

.02. General Areas.

.02.

(1) The prospective application of the estate tax to the property or the estate of a living person, except that rulings may be issued on any international issues in a ruling request accepted pursuant to § 5.06 of Rev. Proc. 2021-1, in this Bulletin

(2) Whether reasonable cause exists under Subtitle F (Procedure and Administration) of the Code.

(3) Whether a proposed transaction would subject a taxpayer to criminal penalties.

(4) Any area where the ruling request does not comply with the requirements of Rev. Proc. 2021-1.

(5) Any area where the same issue is the subject of the taxpayer's pending request for competent authority assistance under a United States income tax treaty.

(6) A "comfort" ruling will not be issued with respect to an issue that is clearly and adequately addressed by statute, regulations, decisions of a court, tax treaties, revenue rulings, or revenue procedures absent extraordinary circumstances (e.g., a request for a ruling required by a governmental regulatory authority in order to effectuate the transaction).

(7) Any frivolous issue, as that term is defined in § 6.10 of Rev. Proc. 2021-1.

4. Areas In Which Letter Rulings Or Determination Letters Will Not Ordinarily Be Issued

.01. Specific Questions and Problems

.01.

(1) Section 367(a).-Transfers of Property from the United States.-Whether a transferred corporation subject to a gain recognition agreement under § 1.367(a)-8 has disposed of substantially all of its assets.

(2) Section 367(b).-Other Transfers.-Whether and the extent to which regulations under § 367(b) apply to an exchange involving foreign corporations, unless the ruling request presents a significant legal issue or subchapter C rulings are requested in the context of the exchange.

(3) Section 864.-Definitions and Special Rules.-Whether a taxpayer is engaged in a trade or business within the United States, and whether income is effectively connected with the conduct of a trade or business within the United States; whether an instrument is a security as defined in § 1.864-2(c)(2); whether a taxpayer effects transactions in the United States in stocks or securities under § 1.864-2(c)(2); whether an instrument or item is a commodity for purposes of § 1.864-2(d)(3); and for purposes of § 1.864-2(d)(1) and (2), whether a commodity is of a kind customarily dealt in on an organized commodity exchange, and whether a transaction is of a kind customarily consummated at such place.

(4) Section 871.-Tax on Nonresident Alien Individuals.-Whether a payment constitutes portfolio interest under § 871(h); whether an obligation qualifies for any of the components of portfolio interest such as being in registered form; and whether the income earned on contracts that do not qualify as annuities or life insurance contracts because of the limitations imposed by §§ 72(s) and 7702(a) is portfolio interest as defined in § 871(h).

(5) Section 881.-Tax on Income of Foreign Corporations Not Connected with United States Business.-Whether the income earned on contracts that do not qualify as annuities or life insurance contracts because of the limitations imposed by §§ 72(s) and 7702(a) is portfolio interest as defined in § 881(c).

(6) Section 892.-Income of Foreign Governments and of International Organizations.-Whether income derived by foreign governments and international organizations is excluded from gross income and exempt from taxation and any underlying issue related to that determination.

(7) Section 893.-Compensation of Employees of Foreign Governments and International Organizations.-Whether wages, fees, or salary of an employee of a foreign government or of an international organization received as compensation for official services to such government or international organization is excluded from gross income and exempt from taxation and any underlying issue related to that determination.

(8) Section 894.-Income Affected by Treaty.-Whether the income received by an individual in respect of services rendered to a foreign government or a political subdivision or a local authority thereof is exempt from federal income tax or withholding under any of the United States income tax treaties that contain provisions applicable to such individuals.

(9) Section 894.-Income Affected by Treaty.-Whether a taxpayer has a permanent establishment in the United States for purposes of any United States income tax treaty and whether income is attributable to a permanent establishment in the United States.

(10) Section 894.-Income Affected by Treaty.-Whether certain persons will be considered liable to tax under the laws of a foreign country for purposes of determining if such persons are residents within the meaning of any United States income tax treaty, including pursuant to Rev. Rul. 2000-59, 2000-2 C.B. 593.

(11) Section 894.-Income Affected by Treaty.-Whether the income received by a nonresident alien student or trainee for services performed for a university or other educational institution is exempt from federal income tax or withholding under any of the United States

income tax treaties that contain provisions applicable to such nonresident alien students or trainees.

(12) Section 894.-Income Affected by Treaty.-Whether the income received by a nonresident alien performing research or teaching as personal services for a university, hospital or other research institution is exempt from federal income tax or withholding under any of the United States income tax treaties that contain provisions applicable to such nonresident alien teachers or researchers.

(13) Section 894.-Income Affected by Treaty.-Whether a recipient of a payment is the beneficial owner for purposes of any United States income tax treaty.

(14) Section 894.-Income Affected by Treaty.-Whether an entity is treated as fiscally transparent by a foreign jurisdiction for purposes of § 894(c) and the regulations thereunder or pursuant to any United States income tax treaty.

(15) Section 895.-Income derived by a foreign central bank of issue from obligations of the United States or from bank deposits.-Whether income derived by a foreign central bank of issue is excluded from gross income and exempt from taxation and any underlying issue related to that determination.

(16) Section 901.-Taxes of Foreign Countries and of Possessions of United States.- Whether a foreign levy meets the requirements of a creditable tax under § 901.

(17) Section 901.-Taxes of Foreign Countries and of Possessions of United States.- Whether a person claiming a credit has established, based on all of the relevant facts and circumstances, the amount (if any) paid by a dual capacity taxpayer under a qualifying levy that is not paid in exchange for a specific economic benefit. See § 1.901-2A(c)(2).

(18) Section 903.-Credit for Taxes in Lieu of Income, Etc., Taxes.-Whether a foreign levy meets the requirements of a creditable tax under § 903.

(19) Sections 954(d), 993(c).-Manufactured Product.-Whether a product is manufactured or produced for purposes of §§ 954(d) and 993(c).

(20) Section 937.-Definition of Bona Fide Resident.-Whether an individual is a bona fide resident of American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, or the U.S. Virgin Islands. However, the Service may rule regarding the legal interpretation of a particular provision of § 937(a) or the regulations thereunder.

(21) Section 956.-Investment of Earnings in United States Property. Whether a pledge of the stock of a controlled foreign corporation is an indirect pledge of the assets of that corporation. See § 1.956-2(c)(2).

(22) Section 985.-Functional Currency.-Whether a currency is the functional currency of a qualified business unit.

(23) Section 989(a).-Qualified Business Unit.-Whether a unit of the taxpayer's trade or business is a qualified business unit.

(24) Section 1058.-Transfers of Securities Under Certain Agreements. Whether the amount of any payment described in § 1058(b)(2) or the amount of any other payment made in connection with a transfer of securities described in § 1058 is from sources within or without the United States; the character of such amounts; and whether the amounts constitute a particular kind of income for purposes of any United States income tax treaty.

(25) Section 1059A.-Limitation on Taxpayer's Basis or Inventory Cost in Property Imported from Related Persons.-Whether a taxpayer's cost or inventory basis in property imported from a foreign affiliate will not be limited by § 1059A due to differences between customs valuation and tax valuation.

(26) Sections 1471, 1472, 1473, and 1474.-Taxes to Enforce Reporting on Certain Foreign Accounts.-Whether a taxpayer, withholding agent, or intermediary has properly applied

the requirements of chapter 4 of the Internal Revenue Code (§§ 1471 through 1474, also known as "FATCA") or of an applicable intergovernmental agreement to implement FATCA.

(27) Section 1503(d).-Dual Consolidated Loss.-Whether the income tax laws of a foreign country would deny any opportunity for the foreign use of a dual consolidated loss in the year in which the dual consolidated loss is incurred under § 1.1503(d)-3(e)(1); whether no possibility of foreign use exists under § 1.1503(d)-6(c)(1); whether an event presumptively constitutes a triggering event under § 1.1503(d)-6(e)(1)(i)-(ix); whether the presumption of a triggering event is rebutted under § 1.1503(d)-6(e)(2); and whether a domestic use agreement terminates under § 1.1503(d)-6(j)(1).

(28) Section 2501.-Imposition of Tax.-Whether a partnership interest is intangible property for purposes of § 2501(a)(2) (dealing with transfers of intangible property by a nonresident not a citizen of the United States).

(29) Section 7701.-Definitions. Whether an estate or trust is a foreign estate or trust for federal income tax purposes.

(30) Section 7701.-Definitions. Whether an intermediate entity is a conduit entity under § 1.881-3(a)(4); whether a transaction is a financing arrangement under § 1.881-3(a)(4)(ii); whether the participation of an intermediate entity in a financing arrangement is pursuant to a tax avoidance plan under § 1.881-3(b); whether an intermediate entity performs significant financing activities under § 1.881-3(b)(3)(ii); whether an unrelated intermediate entity would not have participated in a financing arrangement on substantially the same terms under § 1.881-3(c).

(31) Section 7874.-Expatriated Entities and Their Foreign Parents.-Whether, after the acquisition, the expanded affiliated group has substantial business activities in the foreign country in which, or under the law of which, the foreign entity is created or organized, when compared to the total business activities of the expanded affiliated group.

(32) Section 7874.-Expatriated Entities and Their Foreign Parents.-Whether a foreign corporation completes the direct or indirect acquisition of substantially all of the properties held directly or indirectly by a domestic corporation or substantially all of the properties constituting a trade or business of a domestic partnership.

.02. General Areas

.02.

(1) Whether a taxpayer has a business purpose for a transaction or arrangement.

(2) Whether a taxpayer uses a correct North American Industry Classification System (NAICS) code or Standard Industrial Classification (SIC) code.

(3) Any transaction, or series of transactions, that is designed to achieve a different tax consequence or classification under U.S. tax law (including tax treaties) and the tax law of a foreign jurisdiction, where the results of that different tax consequence or classification are inconsistent with the purposes of U.S. tax law (including tax treaties).

(4)(a) Situations where a taxpayer or a related party is domiciled or organized in a foreign jurisdiction with which the United States does not have an effective mechanism for obtaining tax information with respect to civil tax examinations and criminal tax investigations, which would preclude the Service from obtaining information located in such jurisdiction that is relevant to the analysis or examination of the tax issues involved in the ruling request.

(b) The provisions of subsection 4.02(4)(a) above shall not apply if the taxpayer or affected related party (i) consents to the disclosure of all relevant information requested by the Service in processing the ruling request or in the course of an examination to verify the accuracy of the representations made and to otherwise analyze or examine the tax issues involved in the ruling request, and (ii) waives all claims to protection of bank or commercial secrecy laws in the

foreign jurisdiction with respect to the information requested by the Service. In the event the taxpayer's or related party's consent to disclose relevant information or to waive protection of bank or commercial secrecy is determined by the Service to be ineffective or of no force and effect, then the Service may retroactively rescind any ruling rendered in reliance on such consent.

(5) The federal tax consequences of proposed federal, state, local, municipal, or foreign legislation.

(6)(a) Situations involving the interpretation of foreign law or foreign documents. The interpretation of a foreign law or foreign document means making a judgment about the import or effect of the foreign law or document that goes beyond its plain meaning.

(6)(b) The Service, at its discretion, may consider ruling requests that involve the interpretation of foreign laws or foreign documents. In these cases, the Service may request information in addition to that listed in § 7.01(2) and (6) of Rev. Proc. 2021-1, including a discussion of the implications of any authority believed to interpret the foreign law or foreign document, such as pending legislation, treaties, court decisions, notices, or administrative decisions.

(7) The treatment or effects of hook equity, as described in section 4.02(11) of Rev. Proc. 2021-3, in this Bulletin.

5. Effect On Other Revenue Procedures

Rev. Proc. 2020-7 is superseded.

6. Effective Date

This revenue procedure is effective January 4, 2021.

7. Drafting Information

This revenue procedure was compiled by Nancy M. Galib of the Office of Associate Chief Counsel (International). For further information regarding this revenue procedure contact Ms. Galib at (202) 3173800 (not a toll-free number).