

## Part III – Administrative, Procedural, and Miscellaneous

### Additional Interim Guidance Regarding the Application of the Corporate Alternative Minimum Tax

Notice 2026-7

#### SECTION 1. OVERVIEW

This notice provides additional interim guidance regarding the application of the corporate alternative minimum tax (CAMT) under §§ 55, 56A, and 59 of the Internal Revenue Code (Code).<sup>1</sup> Prior to the publication of any final regulations relating to the CAMT, the Department of the Treasury (Treasury Department) and the Internal Revenue Service (IRS) intend to issue proposed regulations (forthcoming proposed regulations) that are anticipated to include rules similar to the interim guidance provided in sections 3 through 10 of this notice, Notice 2025-27, 2025-26 I.R.B. 1611 (June 23, 2025), Notice 2025-28, 2025-34 I.R.B. 316 (August 18, 2025), Notice 2025-46, 2025-43 I.R.B. 533 (October 20, 2025), and Notice 2025-49, 2025-44 I.R.B. 627 (October 27, 2025).

Section 3 of this notice modifies the interim guidance provided in section 4 of Notice 2025-49 and addresses an adjustment to adjusted financial statement income (AFSI)<sup>2</sup>

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<sup>1</sup> Unless otherwise provided, all "section" or "§" references are to sections of the Code or the Income Tax Regulations (26 CFR part 1).

<sup>2</sup> Unless otherwise specified, terms used in this notice have the same meaning as in the CAMT Proposed Regulations described in section 2.03 of this notice.

for deductible tax repairs with respect to section 168 property. Section 4 of this notice modifies the interim guidance provided in section 9 of Notice 2025-49 and addresses an adjustment to AFSI for § 197 amortization attributable to certain intangibles. Section 5 of this notice addresses an adjustment to AFSI for amortization of domestic research or experimental expenditures. Section 6 of this notice addresses an adjustment to AFSI for certain production costs attributable to film, television, live theatrical, and sound recording productions. Section 7 of this notice addresses an adjustment to AFSI for certain low acquisition cost tangible property treated as materials and supplies. Section 8 of this notice clarifies and modifies the interim guidance for financially troubled companies provided in section 4 of Notice 2025-46. Section 9 of this notice addresses modifications to the anti-abuse rule in proposed § 1.56A-4 of the CAMT Proposed Regulations (as defined in section 2.03(1) of this notice) that would apply to certain covered asset transactions. Section 10 of this notice addresses certain CAMT consequences of transactions involving intangible property subject to § 367(d). Section 11 of this notice addresses applicability dates and the ability of taxpayers to rely on the interim guidance provided in Notice 2025-49 and this notice.

## SECTION 2. BACKGROUND

.01 Overview of the CAMT. Section 10101 of Public Law 117-169, 136 Stat. 1818, 1818-1828 (August 16, 2022), commonly known as the Inflation Reduction Act of 2022, amended § 55 to impose the CAMT based on the AFSI of an applicable corporation for taxable years beginning after December 31, 2022. Section 59(k)(1)(A) provides that, for purposes of §§ 55 through 59, the term "applicable corporation" means, with respect to any taxable year, any corporation (other than an S corporation, a regulated investment

company, or a real estate investment trust) that meets the average annual AFSI test provided in § 59(k)(1)(B) for one or more taxable years that (1) are prior to that taxable year, and (2) end after December 31, 2021.

**.02 AFSI under § 56A.**

(1) General definition of AFSI. For purposes of §§ 55 through 59, § 56A(a) provides that the term "AFSI" means, with respect to any corporation for any taxable year, the net income or loss of the taxpayer set forth on the taxpayer's applicable financial statement (AFS) for that taxable year, adjusted as provided in § 56A. Section 56A(c) provides general adjustments to be made to AFSI.

**(2) Provisions of § 56A relevant to the interim guidance provided in this notice.**

(a) Authority of the Secretary to provide necessary adjustments to AFSI. In addition to the separate delegations of authority provided to the Secretary of the Treasury or the Secretary's delegate (Secretary) relating to the adjustments to AFSI specified in paragraphs (2)(B) through (D), (5), (10), (11), (13), and (14) of § 56A(c), § 56A(c)(15) authorizes the Secretary to issue regulations or other guidance to provide for such adjustments to AFSI as the Secretary determines necessary to carry out the purposes of § 56A, including adjustments to prevent the omission or duplication of any item.

(b) General authority of the Secretary. Section 56A(e) authorizes the Secretary to provide such regulations and other guidance as necessary to carry out the purposes of § 56A.

**.03 CAMT Proposed Regulations.**

**(1) In general**. On September 13, 2024, the Treasury Department and the IRS

published a notice of proposed rulemaking (REG-112129-23) in the *Federal Register* (89 F.R. 75062) that addressed the application of the CAMT and permitted taxpayers to rely on the proposed regulations contained therein subject to certain conditions and limitations. On December 26, 2024, the Treasury Department and the IRS published in the *Federal Register* (89 F.R. 104909) technical corrections to the proposed regulations set forth in REG-112129-23, which together with such proposed regulations are referred to as the “CAMT Proposed Regulations” in this notice. Numerous comments were submitted in response to the proposed rules in §§ 1.56A-1 through 1.56A-27, 1.59-2 through 1.59-4, 1.1502-2, 1.1502-53, and 1.1502-56A of the CAMT Proposed Regulations (proposed §§ 1.56A-1 through 1.56A-27, 1.59-2 through 1.59-4, 1.1502-2, 1.1502-53, and 1.1502-56A), which comments the Treasury Department and the IRS continue to consider and study.

(2) Provisions in proposed § 1.56A-4 relevant to the interim guidance provided in this notice. Proposed § 1.56A-4 would provide rules concerning foreign corporations. Specifically, proposed § 1.56A-4 would provide rules under § 56A(c)(2)(C) for determining the amount of AFSI of a CAMT entity that results solely from the CAMT entity’s ownership of stock of a foreign corporation. As relevant for purposes of this notice, proposed § 1.56A-4 would also provide rules under § 56A(c)(15)(B) for determining the AFSI and CAMT basis consequences of certain transactions involving foreign corporations referred to as “covered asset transactions” and rules for adjusting AFSI in certain circumstances in which basis in foreign stock received is determined under § 358. Proposed § 1.56A-4 would define covered asset transactions generally as including two categories of transactions: (i) those involving a transfer of an asset to, or

by, a foreign corporation, and (ii) those involving a transfer of foreign stock to, or by, a domestic corporation. See proposed § 1.56A-4(b)(1)(i) and (ii).

Proposed § 1.56A-4(f) would provide rules that apply to certain cases in which a CAMT entity receives stock of a foreign corporation in a covered asset transaction and the CAMT entity's basis in the stock of the foreign corporation for regular tax purposes is determined under § 358. These proposed rules would compare the CAMT basis in the stock of the foreign corporation (which equals its basis for regular tax purposes under proposed § 1.56A-4(d)(5)) with a hypothetical CAMT basis. The hypothetical CAMT basis is computed by substituting the CAMT basis in the relevant property for the regular tax basis (see proposed § 1.56A-4(f)(2)). The relevant property is the property whose basis is used to determine (in whole or in part) the basis of the foreign stock for regular tax purposes. To the extent a CAMT entity's basis in the stock of the foreign corporation received for regular tax purposes exceeds its hypothetical CAMT basis in that stock, the CAMT entity would increase its AFSI for the taxable year in which the foreign stock is received by the amount of such excess if either of two requirements is satisfied. See proposed § 1.56A-4(f)(1).

The first requirement would be satisfied if a principal purpose of the covered asset transaction is to avoid treatment of the CAMT entity or another CAMT entity as an applicable corporation or to reduce or otherwise avoid a liability under § 55(a) (proposed principal purpose rule). The second requirement would be satisfied if within two years of the date the stock of the foreign corporation is received, the basis in such stock of the foreign corporation is taken into account, in whole or in part, in determining the AFSI of the recipient CAMT entity or another CAMT entity (proposed two-year rule). The

principles of the proposed two-year rule apply with respect to any asset whose basis for regular tax purposes is determined in whole or in part by reference to the basis of the foreign stock received. For example, if stock of the foreign corporation received is subsequently transferred in a transaction described in § 351(a) to another foreign corporation in exchange for stock of such other foreign corporation (or if the foreign stock received is exchanged under § 354 for stock in another foreign corporation), then the proposed two-year rule applies to both the stock of the foreign corporation received in the initial transfer as well as the stock of the other foreign corporation received in the subsequent transfer.

With respect to the ownership of foreign stock generally, proposed § 1.56A-4(c)(1) would provide for adjustments to a CAMT entity's AFSI as a result of direct ownership of stock of a foreign corporation. Specifically, proposed § 1.56A-4(c)(1)(i) would require a CAMT entity, in calculating AFSI, to disregard any items of income, expense, gain, and loss resulting from ownership of stock of the foreign corporation, including any such items that result from acquiring or transferring such stock, reflected in the CAMT entity's financial statement income (FSI). Proposed § 1.56A-4(c)(1)(ii) generally would require the CAMT entity to include in AFSI any items of income, deduction, gain, and loss for regular tax purposes resulting from ownership of stock of the foreign corporation, including any items that result from acquiring or transferring such stock, other than any items of income, deduction, gain, and loss resulting from the application of §§ 78, 250, 951, or 951A.

Proposed § 1.56A-4(c)(2) would provide for adjustments to a CAMT entity's AFSI as a result of a transfer of an asset other than stock of a foreign corporation in a

covered asset transaction. Specifically, proposed § 1.56A-4(c)(2)(i) would require a CAMT entity, in calculating AFSI, to disregard any items of income, expense, gain, and loss with respect to the transferred asset resulting from the covered asset transaction reflected in the CAMT entity's FSI. Proposed § 1.56A-4(c)(2)(ii) would require the CAMT entity to include any items of income, deduction, gain, and loss for regular tax purposes with respect to the transferred asset resulting from the covered asset transaction; however, for this purpose, the amount of each such item would be computed by substituting the CAMT entity's CAMT basis in the transferred asset for the CAMT entity's basis in the transferred asset for regular tax purposes.

(3) Provisions in proposed § 1.56A-6 relevant to the interim guidance provided in this notice. Proposed § 1.56A-6 would provide rules under § 56A(c)(3) regarding an adjustment to the AFSI of a CAMT entity for any taxable year in which the CAMT entity is a U.S. shareholder of one or more controlled foreign corporations (CFC). The amount of the adjustment generally would be determined by reference to the CAMT entity's pro rata share of adjusted net income or loss of each such CFC. Proposed § 1.56A-6(c)(1) generally would define the term "adjusted net income or loss" with respect to any CFC, for any taxable year of the CFC, as the FSI of the CFC, adjusted for all AFSI adjustments provided under the CAMT Proposed Regulations, except as provided in proposed § 1.56A-6(c)(2) through (5). For this purpose, references to AFSI in other sections of the CAMT Proposed Regulations, except for references to AFSI in proposed § 1.56A-1(b)(1) and (e) (which would provide the general definition of AFSI and general rules for translating AFSI to U.S. dollars, respectively), would be treated as references to adjusted net income or loss.

.04 Prior interim guidance issued subsequent to CAMT Proposed Regulations.

(1) Notice 2025-27 provides interim guidance regarding an optional simplified method for determining applicable corporation status and provides a limited waiver of certain additions to tax under § 6655 with respect to a corporation's CAMT liability for taxable years beginning during 2025.

(2) Notice 2025-28 provides interim guidance on determining a CAMT entity's AFSI with respect to an investment in a partnership, reporting by partnerships of information needed to compute AFSI, and the treatment of partnership contributions and distributions.

(3) Notice 2025-46 provides interim guidance on the application of the CAMT to domestic corporate transactions, financially troubled companies, tax consolidated groups, acquired financial statement net operating losses, and certain built-in items. Section 4.03 of Notice 2025-46 provides interim guidance on the treatment of discharge of indebtedness income, including interim guidance addressing rules related to attribute reduction.

(4) Notice 2025-49 provides interim guidance on the application of the CAMT, including adjustments to AFSI for (a) eligible regulatory assets, (b) certain items measured at fair value, (c) CAMT entities subject to the tonnage tax regime, (d) certain embedded depreciation deductions, (e) nonlife insurance company net operating loss carrybacks, (f) eligible goodwill amortization, and (g) accounting principle changes and restatements of a prior year AFS. In addition, Notice 2025-49 provides that, for taxable years beginning before the date the corresponding final regulation is published in the *Federal Register*, a taxpayer may rely on a section of the CAMT Proposed Regulations

without also being required to rely on any other sections of the CAMT Proposed Regulations, provided the taxpayer consistently follows that section in its entirety for all taxable years beginning with the first taxable year with respect to which the taxpayer relies on that section.

Further, Notice 2025-49 provided that, for taxable years beginning before the date the forthcoming proposed regulations are published in the *Federal Register*, a taxpayer may rely on any section of the CAMT Proposed Regulations, as modified by any guidance subsequently published in the Internal Revenue Bulletin, provided the taxpayer consistently follows that section (as so modified) in its entirety for all taxable years beginning with the first taxable year with respect to which the taxpayer relies on that section. However, a taxpayer may rely on proposed § 1.56A-4 (AFSI adjustments and basis determinations with respect to foreign corporations) or proposed § 1.56A-6 (AFSI adjustments with respect to CFCs of the CAMT Proposed Regulations, as applicable, for taxable years beginning before the date a corresponding final regulation section is published in the *Federal Register* only if the taxpayer also follows certain other sections of the CAMT Proposed Regulations. Finally, Notice 2025-49 reiterated that, for a taxable year described in section 3.05 of Notice 2025-27, section 9 of Notice 2025-28, or section 9 of Notice 2025-46, as applicable, a taxpayer may rely on the guidance described in section 3.03 of Notice 2025-27, sections 3 through 7 of Notice 2025-28, or sections 3 through 6 of Notice 2025-46, without being required to follow any section, or part thereof, of the CAMT Proposed Regulations (except to the extent required by, or incorporated into, these notices).

.05 Comments received on the CAMT Proposed Regulations or prior interim

guidance relevant to interim guidance provided in this notice.

(1) Tax repair and maintenance costs attributable to section 168 property. Neither § 56A(c) nor the CAMT Proposed Regulations provide an adjustment to AFSI for repair and maintenance costs with respect to section 168 property. However, section 4 of Notice 2025-49 provides a limited adjustment to AFSI for repair and maintenance costs that are capitalized and depreciated for AFS purposes under certain GAAP rules applicable to CAMT entities with regulated operations. Comments submitted in response to the CAMT Proposed Regulations and Notice 2025-49 recommended that an adjustment to AFSI be provided for all CAMT entities for repair or maintenance costs with respect to section 168 property that are deducted for regular tax purposes but capitalized and depreciated for AFS purposes. Such an adjustment to AFSI would include the repair and maintenance costs for which an adjustment to AFSI is permitted under section 4 of Notice 2025-49 for CAMT entities with regulated operations.

In addition to the comments described in section 2.05(2) of Notice 2025-49, commenters noted that the AFSI adjustments provided for covered book COGS depreciation and covered book depreciation expense in proposed § 1.56A-15(d)(1)(iii) require only that a CAMT entity adjust AFSI to disregard such amounts with respect to section 168 property. Accordingly, if an item of section 168 property and its related repair and maintenance costs are treated as a single item of property for AFS purposes, commenters noted that determining the amount of these adjustments would require the CAMT entity to determine the portion of book depreciation expense in FSI that is attributable to repair and maintenance costs (incurred during the current taxable year, as well as prior taxable years) with respect to the section 168 property and to remove

such amount from book depreciation expense before making the adjustments to AFSI for covered book COGS depreciation and covered book depreciation expense.

Commenters noted that this additional step would add undue complexity to the calculation of AFSI by requiring that impacted CAMT entities create separate CAMT records for each item of AFS property to track the portion of AFS basis that corresponds to section 168 property and the portion that corresponds to repair and maintenance costs that are deducted for regular tax purposes. Commenters noted that one option to reduce compliance burden would be to allow CAMT entities to disregard the entire amount of covered book COGS depreciation and covered book depreciation expense, including amounts attributable to tax repair and maintenance costs deducted for regular tax purposes; however, the commenters also noted that such an approach would overstate AFSI.

Accordingly, commenters suggested that providing an adjustment to AFSI for repair and maintenance costs with respect to section 168 property that are deducted for regular tax purposes, including a corresponding adjustment to disregard the book depreciation expense attributable to the repair or maintenance cost for AFS purposes (if applicable), would reduce compliance burdens as it would allow a CAMT entity to disregard the entire amount of covered book COGS depreciation or covered book depreciation expense in those situations in which a single item of AFS property corresponds to capitalized section 168 property and deducted repair and maintenance costs for regular tax purposes. Commenters noted that providing such an adjustment to AFSI would eliminate the burden and expense of separately tracking and bifurcating book depreciation expense for an item of AFS property, solely for CAMT purposes,

between the portion disregarded in determining AFSI (with respect to section 168 property) and the remaining portion (with respect to repair and maintenance costs deducted for regular tax purposes).

(2) Intangible amortization. Section 9 of Notice 2025-49 provides an adjustment to AFSI for amortization under § 197 attributable to goodwill acquired in certain transactions announced or completed on or before October 28, 2021. As discussed in section 2.05(7) of Notice 2025-49, for regular tax purposes, amounts paid to another party to acquire goodwill are generally capitalized in the taxable year paid or incurred and amortized ratably over a 15-year period beginning with the month in which the goodwill is acquired. See § 197(a), (c), and (d)(1)(A). For AFS purposes, such amounts are capitalized in the year incurred but, in general, are not recoverable through amortization but rather are recoverable to the extent the goodwill is impaired (in which case an impairment loss would be recognized) or upon disposition of the goodwill. Accordingly, prior to the issuance of Notice 2025-49, commenters had requested an adjustment to AFSI for amortization deductions under § 197 attributable to goodwill as, to the extent the goodwill is not amortizable for AFS purposes, a CAMT liability under § 55 could arise in the taxable year such amortization is deducted for regular tax purposes under § 197. Commenters observed that CAMT entities could not have considered the consequences of the CAMT, including the treatment of goodwill under the CAMT, in their financial modeling for business acquisitions or in the allocation of the purchase price among acquired assets for acquisitions that occurred before the CAMT was in effect and, therefore, should be allowed an adjustment to AFSI for the amortization of goodwill acquired prior to that time. In addition, commenters indicated

that, absent an AFSI adjustment, the CAMT consequences of transactions that result in the acquisition of goodwill could discourage further domestic investment.

In response to Notice 2025-49, commenters noted that there are other intangibles subject to amortization under § 197, the costs of which, for AFS purposes, are (i) required to be capitalized in the year incurred, and (ii) not permitted to be recovered through amortization but instead are recoverable only to the extent the intangible asset is impaired or upon disposition of the asset. Accordingly, commenters have requested an adjustment to AFSI for amortization deductions under § 197 with respect to these other intangibles. Neither § 56A(c) nor the CAMT Proposed Regulations provide an adjustment to AFSI for amortization under § 197 with respect to these other intangibles. Commenters requesting this adjustment for these other intangibles explained that, as in the case of goodwill, because these other intangibles are not amortizable for AFS purposes, a CAMT liability under § 55 could arise in taxable years in which amortization of these other intangibles is deducted for regular tax purposes under § 197. In addition, commenters argued that CAMT entities could not have considered the consequences of the treatment of other intangibles subject to amortization under § 197 under the CAMT and, therefore, should be allowed an adjustment to AFSI for the amortization of other intangibles acquired prior to that time. Finally, commenters noted that the CAMT consequences of transactions that result in the acquisition of these other intangibles could deter further domestic investment.

(3) Domestic research and experimental expenditures. Under GAAP, research and experimental costs generally are expensed in the year in which they are incurred. See, e.g., Accounting Standards Codification (ASC) 730-10-25. For software developed to

be sold, leased, or otherwise externally marketed, generally costs incurred to establish technological feasibility of the software are expensed in the year in which they are incurred. However, costs incurred after establishing technological feasibility and before the product is available for general release are capitalized and amortized. Following general release, costs of enhancements to extend the life or significantly improve the marketability of the software product are capitalized and amortized and maintenance costs are expensed in the year in which they are incurred. See, e.g., ASC 985-20. For software developed for internal use, under current GAAP guidance, costs incurred during the application development stage generally are capitalized and amortized. All other costs incurred to develop internal-use software generally are expensed in the year in which they are incurred. See, e.g., ASC 350-40.<sup>3</sup>

Public Law 119-21, 139 Stat. 72 (July 4, 2025), commonly known as the One, Big, Beautiful Bill Act (OBBBA), added to the Code § 174A, which provides that a deduction is allowed for any domestic research or experimental expenditures, including domestic software development expenditures, that are paid or incurred by the taxpayer in a taxable year beginning after December 31, 2024. In addition, § 174A(c) allows a taxpayer to make an election to instead charge such expenditures to capital account and amortize the expenditures ratably over a period of not less than 60 months, beginning with the month in which the taxpayer first realizes benefits from such expenditures. Prior to amendment by the OBBBA, under § 174, as amended by Public

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<sup>3</sup> The FASB issued updated guidance for internal-use software in September 2025. See Accounting Standards Update No.2025-06, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software*. This update to ASC 350-40 modifies the accounting for internal-use software to instead apply a principles-based threshold. The update is effective for annual reporting periods beginning after December 15, 2027; however, early adoption is permitted as of the beginning of an annual reporting period.

Law 115-97, 131 Stat. 2054 (Dec. 22, 2017), commonly known as the Tax Cuts and Jobs Act (TCJA), specified research or experimental expenditures, including both foreign and domestic expenditures, were required to be charged to capital account and amortized ratably over a defined period (5 years for domestic research and 15 years for foreign research) for amounts paid or incurred in taxable years beginning after December 31, 2021. Accordingly, for taxable years beginning after December 31, 2024, the enactment of § 174A as part of the OBBBA created a transition period during which both §§ 174 and 174A determine the treatment and timing of domestic research or experimental expenditures. During this transition period, regular taxable income for a taxable year will take into account two layers of recovery for domestic research or experimental expenditures: the deduction of current year expenditures under § 174A and the continued amortization of prior year expenditures under § 174.

Neither § 56A(c) nor the CAMT Proposed Regulations provide an adjustment to AFSI for research or experimental expenditures, including software development expenditures. Accordingly, such amounts would be reflected in AFSI at the same time, and in the same amount, as when such amounts are reflected in FSI. In addition, neither § 56A(c) nor the CAMT Proposed Regulations provide an adjustment to AFSI to account for the transition to the § 174A regime. Commenters requested that an adjustment to AFSI be allowed for taxable years beginning after December 31, 2024, equal to the amount of amortization under § 174 attributable to domestic expenditures taken in computing regular taxable income for such taxable years. Commenters noted that while AFSI would otherwise remain unchanged during the transition period, regular taxable income is decreased for the transition period taxable years (compared to what

regular taxable income would have been if only § 174, or only § 174A, was applicable) due to the dual layers of recovery for domestic research and experimental expenditures resulting from the simultaneous application of §§ 174 and 174A.

(4) Qualified production costs under § 181. Commenters requested that an adjustment to AFSI be allowed for certain production costs paid or incurred by a CAMT entity for qualified film or television productions, qualified live theatrical productions, or qualified sound recordings (collectively, eligible production property) allowed as a deduction under § 181. Under § 181, taxpayers may elect to treat production costs of eligible production property as an expense deductible for the taxable year in which the production costs are paid or incurred, subject to dollar limitations that vary based on the type of production (defined in section 6 as qualified production costs). See § 181(a)(1) and (2). Production costs of eligible production property that exceed the dollar limitation are charged to capital account and depreciated for regular tax purposes once the eligible production property is placed in service (excess production costs). The portion of basis eligible for first year additional depreciation under § 168(k) is depreciated under § 168 and any remaining basis is depreciated under § 167. See §§ 167, 168(k), and 168(k)(2)(A)(i)(IV), (V), and (VI). In general, for GAAP and IFRS purposes, both the qualified production costs and excess production costs attributable to an eligible production property generally are capitalized in the year incurred and depreciated as a single asset over its useful life once the asset is placed in service.

Neither § 56A(c) nor the CAMT Proposed Regulations provide an adjustment to AFSI for qualified production costs. Accordingly, CAMT entities that elect to deduct qualified production costs under § 181(a) would need to determine AFSI by (i) including

the amount of such costs included in FSI for such taxable year (generally, the corresponding amount of book depreciation for such year), and (ii) making adjustments under proposed § 1.56A-15 for any excess production costs (as excess production costs are charged to capital account and depreciable under § 168, thus constituting section 168 property for CAMT purposes). Commenters indicated that this bifurcated treatment for CAMT purposes with respect to a single eligible production property leads to compliance burdens as impacted CAMT entities must bifurcate the single AFS asset attributable to the eligible production property and (i) continue to track the portion of AFS basis that corresponds to the qualified production costs in order to determine the appropriate amount of book depreciation or other basis recovery in FSI to include in AFSI, and (ii) track the portion of AFS basis that corresponds to excess production costs in order to properly determine the amount of book depreciation in FSI to disregard in making the adjustments under § 56A(c)(13). Commenters indicated that an adjustment to AFSI that (i) reduces AFSI by the qualified production costs deducted under § 181, and (ii) disregards the corresponding depreciation or other basis recovery included in FSI would reduce compliance burden, resulting in consistent treatment of the single AFS asset for CAMT purposes.

(5) Materials and supplies costs. Amounts paid or incurred to acquire or produce materials and supplies, as defined in § 1.162-3(c)(1), are deductible only under § 162 in accordance with the applicable timing rules provided in § 1.162-3. *See generally* § 1.162-3(a). The definition of “materials and supplies” includes amounts paid or incurred to acquire certain tangible property that has an acquisition or production cost of \$200 or less. *See* § 1.162-3(c)(1) and (c)(1)(iv). Thus, amounts paid or incurred for

such low acquisition cost tangible property are deductible only under § 162, notwithstanding that such property is used in the taxpayer's business and, absent the requirement to be treated as materials and supplies under § 1.162-3, would otherwise be tangible property depreciable under § 168. For AFS purposes, amounts incurred for such tangible property may be capitalized and depreciated depending on the useful life of the property.

Neither § 56A(c) nor the CAMT Proposed Regulations provide an adjustment to AFSI for deductions under § 162 with respect to amounts paid or incurred for materials and supplies. Accordingly, a CAMT entity would include in its AFSI for a taxable year the amounts attributable to materials and supplies that are included in the CAMT entity's FSI for such taxable year. Commenters noted that CAMT entities in certain industries for which a majority of the core business assets consist of low acquisition cost materials are required to capitalize and depreciate the costs of such materials and supplies for AFS and FSI purposes. Commenters noted that these CAMT entities may experience elevated AFSI compared to other taxpayers for which the majority of core business assets comprise section 168 property, because those other taxpayers can adjust AFSI for the section 168 property under § 56A(c)(13). Accordingly, commenters requested that an adjustment to AFSI be provided for amounts deducted under § 162 with respect to materials and supplies described in § 1.162-3(c)(1)(iv) that are, for AFS purposes, capitalized in the year incurred and depreciated once the corresponding asset is placed in service.

(6) Attribute reduction for, and income from non-transactional bankruptcy emergences of, financially troubled companies. Commenters have asked whether the

rules in § 1.1502-28 (concerning the application of § 108 to tax consolidated groups) would apply for purposes of the attribute reduction interim guidance provided in section 4.03(4) and (5) of Notice 2025-46. Commenters also have inquired about the intended application of fresh start accounting upon the emergence from bankruptcy of a financially troubled company as provided in section 4.04(2)(a) of Notice 2025-46, noting that the approach under that section appears to differ from the approach under proposed § 1.56A-21(d)(2).

(7) AFSI adjustments required under proposed § 1.56A-4 in certain cases in which basis in foreign stock is determined under § 358. The Treasury Department and the IRS received a comment with respect to the per se application of the proposed two-year rule described in section 2.03(2) of this notice. The commenter noted that the proposed rule would require a full inclusion in AFSI of the excess of regular basis over hypothetical CAMT basis if a single dollar of basis in the stock received is “taken into account” within two years. To address this potential concern, the commenter recommended converting the per se aspect of the proposed rule into a rebuttable presumption.

The Treasury Department and the IRS also received a comment with respect to the application of the proposed two-year rule to taxable years before publication of the CAMT Proposed Regulations. Specifically, the commenter noted that taxpayers could not have anticipated the proposed rules for determining basis in assets, including stock of foreign corporations and, absent knowledge of the CAMT Proposed Regulations, would not have had the necessary tools to evaluate the impact of certain transactions for purposes of determining applicable corporation status or CAMT liability.

(8) AFSI adjustments with respect to transactions involving intangible property subject to § 367(d). One commenter noted that proposed § 1.56A-4 effectively would incorporate the rules of § 367(d) in the case of a transaction involving intangible property such that there would be adjustments to a U.S. transferor's AFSI but would be no corresponding adjustments with respect to the adjusted net income or loss of a transferee foreign corporation. Accordingly, the commenter requested that the transferee foreign corporation in a § 367(d) transaction be permitted to reduce its adjusted net income or loss by the amount of the deemed royalty for regular tax purposes to eliminate the double taxation result.

### SECTION 3. AFSI ADJUSTMENT FOR CERTAIN TAX REPAIR DEDUCTIONS

.01 Purpose. In response to comments received on the CAMT Proposed Regulations and Notice 2025-49, this section 3 modifies the interim guidance provided in section 4 of Notice 2025-49 to allow a CAMT entity to adjust AFSI for certain tax repair deductions. The Treasury Department and the IRS anticipate that the forthcoming proposed regulations will include proposed regulations under § 56A(c)(15) and (e) consistent with the guidance provided in this section 3. In addition, the Treasury Department and the IRS anticipate that the forthcoming proposed regulations will propose a modification to proposed § 1.59-2(c) to provide that, for purposes of applying the average annual AFSI test in § 59(k)(1)(B) or proposed § 1.59-2(c), AFSI would be determined without regard to the AFSI adjustment provided in this section 3.

.02 Definitions. For purposes of this section 3:

(1) Book COGS repair depreciation. The term book COGS repair depreciation means any of the following items that are taken into account as part of cost of goods

sold (or as part of the computation of gain or loss from the sale or exchange of property held for sale) in FSI with respect to an eligible repair asset--

(a) Depreciation expense;

(b) Other recovery of AFS basis (including from an impairment loss) that occurs either:

(i) Prior to the taxable year in which the complete disposition of the eligible repair asset occurs for AFS purposes, or

(ii) In the taxable year in which the complete disposition of the eligible repair asset occurs for AFS purposes; or

(c) Impairment loss reversal.

(2) Book repair depreciation expense. The term book repair depreciation expense means any of the following items, other than book COGS repair depreciation, that are taken into account in FSI with respect to an eligible repair asset--

(a) Depreciation expense;

(b) Other recovery of AFS basis (including from an impairment loss) that occurs either:

(i) Prior to the taxable year in which the complete disposition of the eligible repair asset occurs for AFS purposes, or

(ii) In the taxable year in which the complete disposition of the eligible repair asset occurs for AFS purposes; or

(c) Impairment loss reversal.

(3) Book repair inventoriable depreciation. The term book repair inventoriable depreciation means any of the following items that are included in inventoriable cost (or

capitalized as part of the cost of non-inventory property held for sale) in the CAMT entity's AFS with respect to an eligible repair asset--

(a) Depreciation expense;

(b) Other recovery of AFS basis (including from an impairment loss) that occurs either:

(i) Prior to the taxable year in which the complete disposition of the eligible repair asset occurs for AFS purposes, or

(ii) In the taxable year in which the complete disposition of the eligible repair asset occurs for AFS purposes; or

(c) Impairment loss reversal.

(4) Deductible tax repair. The term deductible tax repair means any amount paid or incurred for regular tax purposes for repairs and maintenance during a taxable year and allowed as a deduction in computing taxable income for such taxable year under § 1.162-4 with respect to an eligible repair asset, including amounts deductible under § 1.162-4 that are capitalized (other than under § 263) and subsequently recovered as a deduction in computing taxable income (even if the deduction is allowed under a provision of the Code other than § 162, for example under §§ 616 and 617).

(5) Eligible repair asset. The term eligible repair asset means any cost that meets the requirements in section 3.03 of this notice.

(6) Tax COGS repair deduction. The term tax COGS repair deduction means--

(a) Any amount deducted under § 1.162-4 with respect to an eligible repair asset that is capitalized to inventory under § 263A and is recovered as part of cost of goods sold in computing gross income; and

(b) Any amount deducted under § 1.162-4 with respect to an eligible repair asset that is capitalized under § 263A to the basis of property described in § 1221(a)(1) that is not inventory and is recovered as part of the computation of gain or loss from the sale or exchange of such property in computing taxable income.

(7) Tax repair section 481(a) adjustment. The term tax repair section 481(a) adjustment means an adjustment (or portion thereof) required under § 481(a) for a change in method of accounting (other than a change in method of accounting described in section 3.02(8) of this notice) that impacts the timing of taking into account a deductible tax repair with respect to an eligible repair asset in computing taxable income (for example, a change in method of accounting involving a change from deducting a deductible tax repair to capitalizing such deductible tax repair under § 263A or another capitalization provision, or vice versa).

(8) Tax repair capitalization method change. The term tax repair capitalization method change means a change in method of accounting for regular tax purposes involving a change from capitalizing and depreciating a deductible tax repair under § 263 to deducting the deductible tax repair under § 1.162-4 (or vice versa).

(9) Tax repair capitalization method change AFSI adjustment.

(a) In general. The term tax repair capitalization method change AFSI adjustment means an adjustment to AFSI that is required under section 3.04(6) of this notice if a CAMT entity makes a tax repair capitalization method change and previously made an adjustment to AFSI under section 3 of this notice in a preceding taxable year. The tax repair capitalization method change AFSI adjustment is computed separately for each tax repair capitalization method change and equals the difference between the

following amounts computed as of the beginning of the tax year of change--

(i) The cumulative amount of adjustments to AFSI under section 3.04 of this notice with respect to the cost(s) subject to the tax repair capitalization method change that were made with respect to the preceding taxable years beginning with the first taxable year for which the CAMT entity makes an adjustment to AFSI under section 3 of this notice, and beginning before the tax year of change; and

(ii) The cumulative amount of adjustments to AFSI under section 3.04 of this notice with respect to the cost(s) subject to the tax repair capitalization method change that would have been made with respect to the preceding taxable years beginning with first taxable year for which the CAMT entity makes an adjustment to AFSI under section 3 of this notice, and beginning before the tax year of change, if the new method of accounting for the cost(s) had been applied for regular tax purposes in those taxable years.

(b) Coordination with proposed § 1.56A-15. The amount of the tax repair capitalization method change AFSI adjustment is adjusted, as necessary, to prevent the duplication of any adjustment to AFSI due to a tax repair capitalization method change also constituting a tax capitalization method change (as described in proposed § 1.56A-15(b)(10)) with respect to section 168 property.

.03 Eligible repair asset.

(1) In general. For purposes of section 3 of this notice, an eligible repair asset means any cost that is--

(a) Attributable to repair or maintenance of section 168 property (as defined in proposed § 1.56A-15(c));

(b) Capitalized and subject to depreciation for AFS purposes;  
(c) Not capitalized as section 168 property under § 263 for regular tax purposes;  
and

(d) Not capitalized to section 168 property under § 263A or another capitalization provision for regular tax purposes.

(2) Placed in service in any taxable year. An eligible repair asset includes any eligible repair asset placed in service by the CAMT entity for AFS purposes in any taxable year, including taxable years ending on or before December 31, 2019.

.04 AFSI adjustment for eligible repair assets. The AFSI of a CAMT entity for a taxable year may be adjusted as follows:

- (1) Reduced by the tax COGS repair deduction with respect to eligible repair assets, but only to the extent of the amount taken into account--
  - (a) As part of cost of goods sold in computing gross income for the taxable year; or
  - (b) As part of the computation of gain or loss from the sale or exchange of non-inventory property described in § 1221(a)(1) that is included in taxable income, or deducted in computing taxable income, respectively, for the taxable year;
- (2) Reduced by deductible tax repairs with respect to eligible repair assets, but only to the extent of the amount taken as a deduction in computing taxable income for the taxable year;
- (3) Adjusted to disregard book COGS repair depreciation and book repair depreciation expense with respect to eligible repair assets;
- (4) Reduced by any tax repair section 481(a) adjustment with respect to eligible

repair assets that is negative, but only to the extent of the amount of the adjustment that is taken into account in computing taxable income for the taxable year;

(5) Increased by any tax repair section 481(a) adjustment with respect to eligible repair assets that is positive, but only to the extent of the amount of the adjustment that is taken into account in computing taxable income for the taxable year; and

(6) Increased or decreased, as appropriate, by any tax repair capitalization method change AFSI adjustment in accordance with section 3.06 of this notice.

.05 Determining the book COGS repair depreciation and tax COGS repair deduction adjustments.

(1) In general. Except as provided in section 3.05(2) of this notice, a CAMT entity is required to--

(a) Apply the method(s) of accounting the CAMT entity uses for AFS purposes to determine the book COGS repair depreciation adjustment under section 3.04(3) of this notice; and

(b) Apply the method(s) of accounting under § 263A that the CAMT entity uses for regular tax purposes (and, in the case of inventory property, the method(s) of accounting that the CAMT entity uses to identify and value inventories under §§ 471 and 472) to determine the tax COGS repair deduction adjustment under section 3.04(1) of this notice.

(2) Reasonable method. A CAMT entity is permitted to use any reasonable method to determine book repair inventoriable depreciation in ending inventory with respect to eligible repair assets for AFS purposes, or to determine deductible tax repairs included in ending inventory for regular tax purposes, or both, for purposes of

determining the book COGS repair depreciation adjustment under section 3.04(3) of this notice or the tax COGS repair deduction adjustment under section 3.04(1) of this notice, provided that such reasonable method is consistent with and reflects the method(s) of accounting the CAMT entity uses for AFS purposes or regular tax purposes, respectively. A reasonable method would include a method similar to the simplifying methods provided in proposed § 1.56A-15(d)(3)(ii)(A) through (C).

(3) Reporting requirement. If a CAMT entity makes the AFSI adjustment provided in section 3.04 of this notice for a taxable year, it must attach a statement to its Federal income tax return for such taxable year. The statement--

- (a) Must be titled “AFSI adjustment for tax repair deductions”,
- (b) Must include the CAMT entity’s name, address, and taxpayer identification number,
- (c) If a CAMT entity uses a reasonable method under section 3.05(2) of this notice, it must: include a statement whether the CAMT entity is using such reasonable method to determine (i) book repair inventoriable depreciation in ending inventory with respect to eligible repair assets for purposes of determining the book COGS repair depreciation adjustment, or (ii) deductible tax repairs in ending inventory for purposes of determining the tax COGS repair deduction adjustment for the taxable year, or (iii) both; describe such reasonable method(s) used; and certify that such reasonable method(s) used are consistent with, and reflect, the method(s) of accounting the CAMT entity uses for AFS purposes or regular tax purposes, as applicable.

.06 Adjustment period for tax repair capitalization method change AFSI adjustments.

The adjustment period for a tax repair capitalization method change AFSI adjustment is

determined in a manner consistent with the proposed rules provided in proposed § 1.56A-15(d)(4) (adjustment period for tax capitalization method change AFSI adjustments with respect to section 168 property).

.07 Consistency requirement. If a CAMT entity relies on section 3 of this notice and makes the AFSI adjustment provided in section 3 of this notice for a taxable year, it must continue to make the adjustment provided in section 3 of this notice for all subsequent taxable years or until such time as prescribed by the Treasury Department and the IRS in regulations or guidance published in the Internal Revenue Bulletin.

.08 Determining applicable corporation status. For purposes of applying the average annual AFSI test in § 59(k)(1)(B) or proposed § 1.59-2(c), AFSI is determined without regard to the AFSI adjustment provided in section 3 of this notice.

#### SECTION 4. AFSI ADJUSTMENT FOR ELIGIBLE INTANGIBLES

.01 Purpose. In response to comments received on Notice 2025-49, this section 4 modifies the interim guidance provided in section 9 of Notice 2025-49 to allow a CAMT entity to adjust AFSI for amortization under § 197 attributable to goodwill and certain other intangibles. The Treasury Department and the IRS anticipate that the forthcoming proposed regulations will include proposed regulations under § 56A(c)(15) and (e) consistent with the guidance provided in this section 4. In addition, the Treasury Department and the IRS anticipate that the forthcoming proposed regulations will propose modifications to proposed § 1.59-2 to provide that, for purposes of applying the average annual AFSI test in § 59(k)(1)(B) or proposed § 1.59-2(c), AFSI is determined without regard to the AFSI adjustments provided in sections 4.04 and 4.07 of this notice.

.02 Definitions. For purposes of this section 4:

(1) Covered book intangible amortization expense. The term covered book intangible amortization expense means any of the following items, other than covered book intangible COGS amortization, that are taken into account in FSI with respect to an eligible intangible--

- (a) Amortization expense;
- (b) Other recovery of AFS basis (including from an impairment loss) that occurs prior to the taxable year in which the disposition of the eligible intangible occurs for regular tax purposes; or
- (c) Impairment loss reversal.

(2) Covered book intangible COGS amortization. The term covered book intangible COGS amortization means any of the following items that are taken into account as part of cost of goods sold (or as part of the computation of gain or loss from the sale or exchange of property held for sale) in FSI with respect to an eligible intangible--

- (a) Amortization expense;
- (b) Other recovery of AFS basis (including from an impairment loss) that occurs prior to the taxable year in which the disposition of the eligible intangible occurs for regular tax purposes; or
- (c) Impairment loss reversal.

(3) Covered book intangible expense. The term covered book intangible expense means an amount (if any), other than covered book intangible COGS amortization and covered book intangible amortization expense, that--

- (a) Reduces FSI; and

(b) Is reflected in the basis for depreciation, as defined in §§ 1.167(g)-1 and 1.197-2(f)(1)(ii) (determined without regard to any basis adjustments described in § 1016(a)(2) and (3)), of an eligible intangible for regular tax purposes.

(4) Covered book inventoriable intangible expense. The term covered book inventoriable intangible expense means any of the following items that are included in inventoriable cost (or capitalized as part of the cost of non-inventory property held for sale) in the AFS of a CAMT entity with respect to an eligible intangible--

- (a) Amortization expense;
- (b) Other recovery of AFS basis (including from an impairment loss) that occurs prior to the taxable year in which the disposition of the eligible intangible occurs for regular tax purposes; or
- (c) Impairment loss reversal.

(5) Deductible intangible tax amortization. The term deductible intangible tax amortization means eligible intangible tax amortization, as defined in section 4.02(7) of this notice, that is allowed as a deduction in computing taxable income.

(6) Eligible intangible. The term eligible intangible means an intangible that meets the requirements of section 4.03 of this notice.

(7) Eligible intangible tax amortization. The term eligible intangible tax amortization means amortization deductions allowed under § 197 with respect to an eligible intangible.

(8) Eligible intangible tax COGS amortization. The term eligible intangible tax COGS amortization means:

- (a) The eligible intangible tax amortization capitalized to inventory under § 263A

and recovered as part of cost of goods sold in computing gross income; and

(b) The eligible intangible tax amortization capitalized under § 263A to the basis of property described in § 1221(a)(1) that is not inventory and is recovered as part of the computation of gain or loss from the sale or exchange of such property in computing taxable income.

(9) Tax intangible amortization section 481(a) adjustment. The term tax intangible amortization section 481(a) adjustment means an adjustment (or portion thereof) required under § 481(a) for a change in method of accounting that impacts the timing of taking into account eligible intangible tax amortization in computing taxable income (for example, a change in method of accounting involving a change from deducting eligible tax amortization to capitalizing eligible tax amortization under § 263A or another capitalization provision, or vice versa).

.03 Eligible intangible.

(1) In general. For purposes of section 4 of this notice, an eligible intangible means an amortizable section 197 intangible under § 197(c) that is either:

(a) Goodwill, or  
(b) An intangible (other than an intangible described in § 56A(c)(14)(B)), the cost of which is capitalized for AFS purposes and such cost is not permitted to be amortized for AFS purposes such that the cost is only recoverable for AFS purposes to the extent the corresponding intangible asset is impaired or disposed of.

(2) Intangibles that are not depreciable under § 197 for regular tax purposes.

Eligible intangibles do not include an intangible that is not subject to amortization under § 197 for regular tax purposes.

.04 AFSI adjustment for eligible intangibles.

(1) In general. The AFSI of a CAMT entity for a taxable year may be adjusted as follows:

- (a) Reduced by eligible intangible tax COGS amortization, but only to the extent of the amount recovered--
  - (i) As part of cost of goods sold in computing gross income for the taxable year; or
    - (ii) As part of the computation of gain or loss from the sale or exchange of non-inventory property described in § 1221(a)(1) that is included in taxable income, or deducted in computing taxable income, respectively, for the taxable year;
- (b) Reduced by deductible intangible tax amortization with respect to an eligible intangible, but only to the extent of the amount allowed as a deduction in computing taxable income for the taxable year;
- (c) Adjusted to disregard covered book intangible amortization expense, covered book intangible COGS amortization, and covered book intangible expense, and amounts described in section 4.07(6) of this notice with respect to an eligible intangible, including an eligible intangible placed in service for regular tax purposes in a taxable year subsequent to the taxable year the eligible intangible is treated as placed in service for AFS purposes;
- (d) Reduced by any tax intangible amortization section 481(a) adjustment that is negative, but only to the extent of the amount of the adjustment that is taken into account in computing taxable income for the taxable year; and
- (e) Increased by any tax intangible amortization section 481(a) adjustment that is

positive, but only to the extent of the amount of the adjustment that is taken into account in computing taxable income for the taxable year.

(2) Eligible intangibles held by a partnership. If an eligible intangible is held by a partnership, the CAMT entity applies rules similar to proposed § 1.56A-16(d)(2). However, if the CAMT entity otherwise applies any proposed modifications to the CAMT Proposed Regulations in Notice 2025-28, the CAMT entity must apply any applicable modifications in determining the effect of the partnership's eligible intangible on AFSI for the taxable year.

.05 Consistency requirement. If a CAMT entity relies on section 4 of this notice and makes the adjustment to AFSI provided in section 4.04 of this notice for a taxable year, the CAMT entity must make the adjustment for all eligible intangibles held by the CAMT entity as of the beginning of such taxable year. This is the case regardless of whether the eligible intangibles are attributable to one or multiple transactions. In addition, once a CAMT entity makes the AFSI adjustment provided in this section 4.04 for a taxable year, such CAMT entity must continue making such adjustment for all subsequent taxable years until all such eligible intangibles are disposed of for regular tax purposes or such time as prescribed by the Treasury Department and the IRS in regulations or guidance published in the Internal Revenue Bulletin.

.06 Determining eligible intangible tax COGS amortization adjustment and covered book intangible COGS amortization adjustment.

(1) In general. Except as provided in section 4.06(2) of this notice, a CAMT entity is required to--

(a) Apply the method(s) of accounting the CAMT entity uses for AFS purposes to

determine the covered book intangible COGS amortization adjustment under section 4.04(1)(c) of this notice; and

(b) Apply the method(s) of accounting under § 263A that the CAMT entity uses for regular tax purposes (and, in the case of inventory property, the method(s) of accounting that the CAMT entity uses to identify and value inventories under §§ 471 and 472) to determine the eligible intangible tax COGS amortization adjustment under section 4.04(1)(a) of this notice.

(2) Reasonable method. A CAMT entity is permitted to use any reasonable method to determine covered book inventoriable intangible expense in ending inventory for AFS purposes for purposes of determining the covered book intangible COGS amortization adjustment under section 4.04(1)(c) of this notice, or to determine the eligible intangible tax amortization included in ending inventory for regular tax purposes for purposes of determining the eligible intangible tax COGS amortization adjustment under section 4.04(1)(a) of this notice, or both, provided that such reasonable method is consistent with and reflects the method(s) of accounting the CAMT entity uses for AFS purposes or regular tax purposes, as applicable. A reasonable method would include a method similar to the simplifying methods provided in proposed § 1.56A-15(d)(3)(ii)(A) through (C).

(3) Reporting requirement. If a CAMT entity makes the AFSI adjustment provided in section 4.04 of this notice for a taxable year, it must attach a statement to its Federal income tax return for such taxable year. The statement--

- (a) Must be titled “AFSI adjustment for eligible intangibles”,
- (b) Must include the CAMT entity’s name, address, and taxpayer identification

number,

(c) If a CAMT entity uses a reasonable method under section 4.06(2) of this notice, it must: include a statement whether the CAMT entity is using such reasonable method to determine (i) covered book inventoriable intangible expense in ending inventory for AFS purposes for purposes of determining the covered book intangible COGS amortization adjustment under section 4.04(1)(c) of Notice 2026-7 for the taxable year, or (ii) eligible intangible tax amortization in ending inventory for regular tax purposes for purposes of determining the eligible tax COGS amortization adjustment under section 4.04(1)(a) of Notice 2026-7, as applicable, for the taxable year, or (iii) both.

.07 AFSI adjustment upon disposition of eligible intangibles.

(1) In general. In the case of a CAMT entity that makes the adjustment provided in section 4.04 of this notice to determine AFSI for any taxable year, except as otherwise provided in section 4.07(7) of this notice, if such CAMT entity disposes of an eligible intangible for regular tax purposes, the CAMT entity must adjust AFSI for the taxable year in which the disposition occurs to redetermine any gain or loss taken into account in the CAMT entity's FSI with respect to the disposition for the taxable year (including a gain or loss of zero) by reference to the CAMT basis (in lieu of the AFS basis) of the eligible intangible as of the date of the disposition (disposition date), as determined under section 4.07(2) of this notice. To the extent the CAMT basis of the eligible intangible is negative (for example, because of differences between regular tax basis and AFS basis), this negative amount is required to be recognized as AFSI gain upon disposition of the eligible intangible.

(2) Adjustments to the AFS basis of eligible intangible. For purposes of applying section 4.07(1) of this notice, the CAMT basis of the eligible intangible as of the disposition date is the AFS basis of the eligible intangible as of that date--

(a) Decreased by the full amount of eligible intangible tax amortization with respect to such eligible intangible as of the disposition date (regardless of whether any amount of eligible intangible tax amortization was capitalized for regular tax purposes and not yet taken into account as a reduction to AFSI through an adjustment described in section 4.04(1)(a) of this notice as of the disposition date);

(b) Increased by the amount of any covered book intangible expense with respect to the eligible intangible;

(c) Increased by the amount of any covered book intangible amortization expense and covered book intangible COGS amortization that reduced the AFS basis of such eligible intangible as of the disposition date;

(d) Decreased by any reduction to the CAMT basis of such eligible intangible under proposed § 1.56A-21, taking into account the proposed modifications to proposed § 1.56A-21 contained in Notice 2025-46 if the CAMT entity otherwise applies such modifications in determining AFSI for the taxable year; and

(e) Increased or decreased, as appropriate, by the amount of any adjustments to AFS basis that are disregarded for AFSI and CAMT basis purposes under the CAMT Proposed Regulations with respect to such eligible intangible, taking into account any proposed modifications to the CAMT Proposed Regulations contained in Notice 2025-46 if the CAMT entity otherwise applies such modifications in determining AFSI for the taxable year.

(3) Adjustments to the AFS basis of eligible intangibles. For purposes of determining the CAMT basis of the eligible intangible under section 4.07(2) of this notice, the CAMT entity applies rules similar to proposed § 1.56A-16(e)(2)(ii).

(4) Disposition of eligible intangibles by a partnership. If a partnership disposes of an eligible intangible, the CAMT entity applies rules similar to proposed § 1.56A-16(e)(3). However, if the CAMT entity otherwise applies any proposed modifications to the proposed CAMT regulations in Notice 2025-28, the CAMT entity must apply any applicable modifications in determining the effect of the disposition on AFSI for the taxable year.

(5) Treatment of amounts recognized in FSI upon the disposition of eligible intangibles. Except as otherwise provided in the CAMT Proposed Regulations (or as otherwise provided in Notice 2025-28 or Notice 2025-46 if the CAMT entity applies a proposed modification to the CAMT Proposed Regulations contained in such notices), if a CAMT entity disposes of an eligible intangible for regular tax purposes and recognizes gain or loss from the disposition in its FSI, the gain or loss (as redetermined under section 4.07(1) of this notice) is recognized for AFSI purposes in the taxable year of disposition, regardless of whether any gain or loss with respect to the disposition is realized, recognized, deferred, or otherwise taken into account for regular tax purposes.

(6) Subsequent AFS dispositions. If an eligible intangible is disposed of for regular tax purposes before it is treated as disposed of for AFS purposes, any AFS basis recovery with respect to such eligible intangible that is reflected in FSI following the date such eligible intangible is disposed of for regular tax purposes is disregarded in determining AFSI.

(7) Intercompany transactions. If a member of a tax consolidated group disposes of an eligible intangible for regular tax purposes in an intercompany transaction, the member determines its AFSI with respect to such disposition by applying proposed § 1.56A-16(e)(6) or, if the member relies on the guidance provided in section 5 of Notice 2025-46 in determining AFSI for the taxable year, the guidance contained in section 5 of Notice 2025-46.

.08 Determining applicable corporation status. For purposes of applying the average annual AFSI test in § 59(k)(1)(B) or proposed § 1.59-2(c), AFSI is determined without regard to the AFSI adjustments provided in sections 4.04 and 4.07 of this notice.

## SECTION 5. AFSI ADJUSTMENT FOR DOMESTIC RESEARCH AMORTIZATION

.01 Purpose. In response to comments received, the Treasury Department and the IRS anticipate that forthcoming proposed regulations will include proposed regulations issued under § 56A(c)(15) and (e) consistent with the guidance in this section 5, which provides an adjustment to AFSI for certain domestic research amortization for taxable years beginning after December 31, 2024. In addition, the Treasury Department and the IRS anticipate that the forthcoming proposed regulations will propose modifications to proposed § 1.59-2 to provide that, for purposes of applying the average annual AFSI test in § 59(k)(1)(B) or proposed § 1.59-2(c), AFSI is determined without regard to the AFSI adjustment provided in section 5.03 of this notice.

.02 Definitions. For purposes of this section 5:

(1) Book research or software development amortization. The term book research or software development amortization means amortization taken into account in determining FSI for a taxable year beginning after December 31, 2024, with respect to:

(a) Amounts incurred for AFS purposes in a taxable year beginning after December 31, 2021, and before January 1, 2025;

(b) That are attributable to domestic research or experimental expenditures (as defined in section 5.02(2) of this notice); and

(c) That are taken into account as TCJA domestic § 174 amortization for regular tax purposes.

(2) Domestic research or experimental expenditures. The term domestic research or experimental expenditures has the meaning provided in § 174A(b). In addition, the term domestic research or experimental expenditures also includes any amount paid or incurred in connection with the development of any software that is treated as a research or experimental expenditure under § 174A(d)(3) if such amount is not an expenditure that is attributable to foreign research (within the meaning of § 41(d)(4)(F)).

(3) TCJA domestic § 174 amortization. The term TCJA domestic § 174 amortization means amortization taken under TCJA § 174(a)(2)(B) in a taxable year beginning after December 31, 2024, with respect to domestic research or experimental expenditures that were paid or incurred for regular tax purposes and capitalized under TCJA § 174 in a taxable year beginning after December 31, 2021, and before January 1, 2025. TCJA domestic § 174 amortization also includes amortization taken under § 70302(f)(2)(A) of the OBBBA with respect to domestic research or experimental expenditures that were paid or incurred for regular tax purposes and capitalized under TCJA § 174 in a taxable year beginning after December 31, 2021, and before January 1, 2025.

(4) TCJA § 174. The term TCJA § 174 means § 174, as in effect after amendment

by § 13206(a) of the TCJA, and prior to amendment by § 70302(b)(1) of the OBBBA.

(5) Tax research capitalization method change. The term tax research capitalization method change means a change in method of accounting for regular tax purposes involving a change from capitalizing and amortizing a cost as a domestic research or experimental expenditure under TCJA § 174 to capitalizing or deducting the cost under another section of the Code (or vice versa), or a change in the treatment of costs that were capitalized and amortized as domestic research or experimental expenditures under TCJA § 174 (such as a change from amortizing such costs over a recovery period inconsistent with TCJA § 174(a)(2)(B) to amortizing such costs over a recovery period consistent with TCJA § 174(a)(2)(B)).

(6) Tax research capitalization method change AFSI adjustment. The term tax research capitalization method change AFSI adjustment means an adjustment to AFSI that is required under section 5.03(3) of this notice if a CAMT entity makes a tax research capitalization method change for a taxable year beginning after December 31, 2025, and previously made an adjustment to AFSI under section 5 of this notice in a preceding taxable year. The tax research capitalization method change AFSI adjustment is computed separately for each tax research capitalization method change and equals the difference between the following amounts computed as of the beginning of the tax year of change--

(a) The cumulative amount of adjustments to AFSI under section 5.03 of this notice with respect to the cost(s) subject to the tax research capitalization method change that were made with respect to the preceding taxable years beginning with the first taxable year for which the CAMT entity makes an adjustment to AFSI under section

5 of this notice, and beginning before the tax year of change; and

(b) The cumulative amount of adjustments to AFSI under section 5.03 of this notice with respect to the cost(s) subject to the tax research capitalization method change that would have been made with respect to the preceding taxable years beginning with the first taxable year for which the CAMT entity makes an adjustment to AFSI under section 5 of this notice, and beginning before the tax year of change, if the new method of accounting for the cost(s) had been applied for regular tax purposes in those taxable years.

.03 AFSI adjustment for domestic research amortization. For taxable years beginning after December 31, 2024, the AFSI of a CAMT entity for a taxable year may be adjusted as follows:

- (1) Reduced by TCJA domestic § 174 amortization, but only to the extent of the amount taken into account in computing taxable income for the taxable year;
- (2) Adjusted to disregard book research or software development amortization; and
- (3) Increased or decreased, as appropriate, by any tax research capitalization method change AFSI adjustment in accordance with section 5.04 of this notice.

.04 Adjustment period for tax research capitalization method change AFSI adjustment. The adjustment period for a tax research capitalization method change AFSI adjustment is determined consistent with the proposed rules provided in proposed § 1.56A-15(d)(4) (adjustment period for tax capitalization method change AFSI adjustments with respect to section 168 property).

.05 Consistency requirement. If a CAMT entity relies on section 5 of this notice and makes the AFSI adjustment provided in section 5 of this notice for a taxable year, it

must continue to make the adjustment provided in section 5 of this notice for all relevant subsequent taxable years or until such time as prescribed by the Treasury Department and the IRS in regulations or guidance published in the Internal Revenue Bulletin.

.06 Determining applicable corporation status. For purposes of applying the average annual AFSI test in § 59(k)(1)(B) or proposed § 1.59-2(c), AFSI is determined without regard to the AFSI adjustment provided in section 5.03 of this notice.

## SECTION 6. AFSI ADJUSTMENT FOR QUALIFIED PRODUCTION COSTS UNDER SECTION 181

.01 Purpose. In response to comments received on the CAMT Proposed Regulations, the Treasury Department and the IRS anticipate that the forthcoming proposed regulations will include proposed regulations under § 56A(c)(15) and (e) consistent with the guidance provided in this section 6 to allow a CAMT entity owner to adjust AFSI for qualified production costs under § 181. In addition, the Treasury Department and the IRS anticipate that the forthcoming proposed regulations will propose a modification to proposed § 1.59-2(c) to provide that, for purposes of applying the average annual AFSI test in § 59(k)(1)(B) or proposed § 1.59-2(c), AFSI is determined without regard to the AFSI adjustment provided in this section 6.

.02 Definitions. For purposes of this section 6:

(1) CAMT entity owner. The term CAMT entity owner means the CAMT entity that is the owner of a qualified production, as defined in section 6.02(4) of this notice, determined consistent with the rules provided in § 1.181-1(a)(2).

(2) Deductible qualified production costs. The term deductible qualified production costs means the qualified production costs, as defined in section 6.02(8) of this notice,

that are allowed as a deduction in computing taxable income.

(3) Production costs. In the case of a qualified film or television production, as defined in § 1.181-3(a), the term production costs has the same meaning as provided in § 1.181-1(a)(3). In the case of qualified live theatrical production, as defined in § 181(e), and a qualified sound recording, as defined in § 181(f), the term production costs means the costs attributable to a qualified live theatrical production and qualified sound recordings determined consistent with the rules provided in § 1.181-1(a)(3).

(4) Qualified production. The term qualified production means a qualified film or television production (as defined in § 1.181-3(a)), a qualified live theatrical production (as defined in § 181(e)), or a qualified sound recording production (as defined in § 181(f)).

(5) Qualified production book COGS depreciation. The term qualified production book COGS depreciation means any of the following items that are taken into account as part of cost of goods sold (or as part of the computation of gain or loss from the sale or exchange of property held for sale) in FSI with respect to qualified production costs--

- (a) Depreciation expense;
- (b) Other recovery of AFS basis (including from an impairment loss) that occurs either:
  - (i) Prior to the taxable year in which the complete disposition of the asset corresponding to the qualified production costs occurs for AFS purposes, or
  - (ii) In the taxable year in which the complete disposition of the asset corresponding to the qualified production costs occurs for AFS purposes; or
- (c) Impairment loss reversal.

(6) Qualified production book expense. The term qualified production book expense means any of the following items, other than qualified production book COGS depreciation, that are taken into account in FSI with respect to qualified production costs--

- (a) Depreciation expense;
- (b) Other recovery of AFS basis (including from an impairment loss) that occurs either:
  - (i) Prior to the taxable year in which the complete disposition of the asset corresponding to the qualified production costs occurs for AFS purposes, or
  - (ii) In the taxable year in which the complete disposition of the asset corresponding to the qualified production costs occurs for AFS purposes; or
- (c) Impairment loss reversal.

(7) Qualified production book inventoriable expense. The term qualified production book inventoriable expense means any of the following items that are included in inventoriable cost (or capitalized as part of the cost of non-inventory property held for sale) in the AFS of a CAMT entity owner with respect to qualified production costs--

- (a) Depreciation expense;
- (b) Other recovery of AFS basis (including from an impairment loss) that occurs either:
  - (i) Prior to the taxable year in which the complete disposition of the asset corresponding to the qualified production costs occurs for AFS purposes, or
  - (ii) In the taxable year in which the complete disposition of the asset corresponding to the qualified production costs occurs for AFS purposes; or

(c) Impairment loss reversal.

(8) Qualified production costs. The term qualified production costs means the production costs of any qualified production allowed as a deduction under § 181(a).

(9) Qualified production tax COGS. The term qualified production tax COGS means:

(a) The qualified production costs capitalized to inventory under § 263A and recovered as part of cost of goods sold in computing gross income; and

(b) Qualified production costs capitalized under § 263A to the basis of property described in § 1221(a)(1) that is not inventory and is recovered as part of the computation of gain or loss from the sale or exchange of such property in computing taxable income.

(10) Tax qualified production costs section 481(a) adjustment. The term tax qualified production costs section 481(a) adjustment means an adjustment (or portion thereof) required under § 481(a) for a change in method of accounting (other than a change in method of accounting described in section 6.02(11) of this notice) that impacts the timing of taking into account qualified production costs in computing taxable income (for example, a change in method of accounting involving a change from deducting qualified production costs to capitalizing such costs under § 263A or another capitalization provision, or vice versa).

(11) Tax qualified production costs capitalization method change. The term tax qualified production costs capitalization method change means a change in method of accounting for regular tax purposes involving a change from capitalizing and depreciating qualified production costs to deducting such costs (or vice versa). This

term also includes a change in the treatment of qualified production costs due to a recapture event described in § 1.181-4(a)(1) and (2).

(12) Tax qualified production costs capitalization method change AFSI adjustment

(a) In general. The term tax qualified production costs capitalization method change AFSI adjustment means an adjustment to AFSI that is required under section 6.03(1)(f) of this notice if a CAMT entity owner makes a tax qualified production costs capitalization method change and previously made an adjustment to AFSI under section 6 of this notice in a preceding taxable year. The tax qualified production costs capitalization method change AFSI adjustment is computed separately for each tax qualified production costs capitalization method change and equals the difference between the following amounts computed as of the beginning of the tax year of change:

(i) The cumulative amount of adjustments to AFSI under section 6.03 of this notice with respect to the cost(s) subject to the tax qualified production costs capitalization method change that were made with respect to the preceding taxable years beginning with the first taxable year for which the CAMT entity owner makes an adjustment to AFSI under section 6 of this notice, and beginning before the tax year of change; and

(ii) The cumulative amount of adjustments to AFSI under section 6.03 of this notice with respect to the cost(s) subject to the tax qualified production costs capitalization method change that would have been made with respect to the preceding taxable years beginning with the first taxable year for which the CAMT entity owner makes an adjustment to AFSI under section 6 of this notice, and beginning before the tax year of change, if the new method of accounting, or treatment, for the cost(s) had

been applied for regular tax purposes in those taxable years.

(b) Coordination with proposed § 1.56A-15. The amount of the tax qualified production costs capitalization method change AFSI adjustment is adjusted, as necessary, to prevent the duplication of any adjustment to AFSI due to the qualified production cost capitalization method change also constituting a tax capitalization method change (as described in proposed § 1.56A-15(b)(10)).

.03 AFSI adjustment for qualified production costs.

(1) In general. The AFSI of a CAMT entity owner for a taxable year may be adjusted as follows--

(a) Reduced by qualified production tax COGS, but only to the extent of the amount recovered--

(i) As part of cost of goods sold in computing gross income for the taxable year, or

(ii) As part of the computation of gain or loss from the sale or exchange of non-inventory property described in § 1221(a)(1) that is included in taxable income, or deducted in computing taxable income, respectively, for the taxable year;

(b) Reduced by the amount of deductible qualified production costs, but only to the extent allowed as a deduction in computing taxable income for the taxable year; and

(c) Adjusted to disregard qualified production book COGS depreciation and qualified production book expense with respect to any qualified production costs paid or incurred in any taxable year, including taxable years ending on or before December 31, 2019.

(d) Reduced by any tax qualified production costs section 481(a) adjustment that

is negative, but only to the extent of the amount of the adjustment that is taken into account in computing taxable income for the taxable year;

(e) Increased by any tax qualified production costs section 481(a) adjustment that is positive, but only to the extent of the amount of the adjustment that is taken into account in computing taxable income for the taxable year; and

(f) Increased or decreased, as appropriate, by any tax qualified production costs capitalization method change AFSI adjustment in accordance with section 6.05 of this notice.

.04 Determining qualified production tax COGS adjustment and qualified production book COGS depreciation adjustment.

(1) In general. Except as provided in section 6.04(2) of this notice, a CAMT entity owner is required to--

(a) Apply the method(s) of accounting the CAMT entity owner uses for AFS purposes to determine the qualified production book COGS depreciation adjustment under section 6.03(1)(c) of this notice; and

(b) Apply the method(s) of accounting under § 263A that the CAMT entity owner uses for regular tax purposes (and, in the case of inventory property, the method(s) of accounting that the CAMT entity owner uses to identify and value inventories under §§ 471 and 472) to determine the qualified production tax COGS adjustment under section 6.03(1)(a) of this notice.

(2) Reasonable method. A CAMT entity owner is permitted to use any reasonable method to determine qualified production book inventoriable expense in ending inventory for AFS purposes for purposes of determining the qualified production book

COGS depreciation adjustment under section 6.03(1)(c) of this notice, or to determine the qualified production costs included in ending inventory for regular tax purposes for purposes of determining the qualified production tax COGS adjustment under section 6.03(1)(a) of this notice, or both, provided that such reasonable method is consistent with and reflects the method(s) of accounting the CAMT entity owner uses for AFS purposes or regular tax purposes, as applicable. A reasonable method would include a method similar to the simplifying methods provided in proposed § 1.56A-15(d)(3)(ii)(A) through (C).

(3) Reporting requirement. If a CAMT entity owner makes the AFSI adjustment provided in section 6.03 of this notice for a taxable year, it must attach a statement to its Federal income tax return for such taxable year. The statement--

- (a) Must be titled “AFSI adjustment for qualified production costs under § 181”,
- (b) Must include the CAMT entity owner’s name, address, and taxpayer identification number,
- (c) If a CAMT entity owner uses a reasonable method under section 6.04(2) of this notice, it must: include a statement whether the CAMT entity owner is using such reasonable method to determine (i) qualified production book inventoriable expense in ending inventory for AFS purposes for purposes of determining the qualified production book COGS depreciation adjustment under section 6.03(1)(c) of Notice 2026-7 for the taxable year, or (ii) qualified production costs in ending inventory for regular tax purposes for purposes of determining the qualified production tax COGS adjustment under section 6.03(1)(a) of Notice 2026-7 for the taxable year, or (iii) both; describe such reasonable method(s) used; and certify that such reasonable method(s) used are

consistent with, and reflect, the method(s) of accounting the CAMT entity owner uses for AFS purposes or regular tax purposes, as applicable.

**.05 Adjustment period for tax qualified production costs capitalization method change**

AFSI adjustment. The adjustment period for a tax qualified production costs capitalization method change AFSI adjustment is determined consistent with the proposed rules provided in proposed § 1.56A-15(d)(4) (adjustment period for tax capitalization method change AFSI adjustments with respect to section 168 property).

**.06 Consistency requirement**. If a CAMT entity owner relies on section 6 of this notice and makes the adjustment to AFSI provided in section 6.03 of this notice for a taxable year, it must continue to make the adjustment provided in section 6.03 of this notice for all subsequent taxable years until all AFS assets corresponding to any qualified production costs are disposed of for AFS purposes or such time as prescribed by the Treasury Department and the IRS in regulations or guidance published in the Internal Revenue Bulletin.

**.07 Determining applicable corporation status**. For purposes of applying the average annual AFSI test in § 59(k)(1)(B) or proposed § 1.59-2(c), AFSI is determined without regard to the AFSI adjustments provided in section 6.03 of this notice.

**SECTION 7. AFSI ADJUSTMENT FOR ELIGIBLE MATERIALS AND SUPPLIES**

**.01 Purpose**. In response to comments received on the CAMT Proposed Regulations, the Treasury Department and the IRS anticipate that the forthcoming proposed regulations will include proposed regulations under § 56A(c)(15) and (e) consistent with the guidance provided in this section 7 to allow a CAMT entity to adjust AFSI for eligible materials and supplies. In addition, the Treasury Department and the

IRS anticipate that the forthcoming proposed regulations will propose a modification to proposed § 1.59-2(c) to provide that, for purposes of applying the average annual AFSI test in § 59(k)(1)(B) or proposed § 1.59-2(c), AFSI is determined without regard to the AFSI adjustment provided in this section 7.

.02 Definitions. For purposes of this section 7:

(1) Deductible eligible materials and supplies. The term deductible eligible materials and supplies means the eligible materials and supplies, as defined in section 7.02(2) of this notice, that are allowed as a deduction in computing taxable income.

(2) Eligible materials and supplies. The term eligible materials and supplies means amounts paid or incurred by a CAMT entity--

(a) To acquire tangible property that is described in § 1.162-3(c)(1)(iv) if such amounts otherwise meet the definition of materials and supplies in § 1.162-3(c)(1),

(b) That the CAMT entity treats as deductible in accordance with the applicable rules in § 1.162-3, and

(c) That are capitalized and depreciated over the useful life of the property for AFS purposes.

(3) Eligible materials and supplies book COGS depreciation. The term eligible materials and supplies book COGS depreciation means any of the following items that are taken into account as part of cost of goods sold (or as part of the computation of gain or loss from the sale or exchange of property held for sale) in FSI with respect to eligible materials and supplies--

(a) Depreciation expense;

(b) Other recovery of AFS basis (including from an impairment loss) that occurs

either:

- (i) Prior to the taxable year in which the complete disposition of the eligible materials and supplies occurs for AFS purposes, or
- (ii) In the taxable year in which the complete disposition of the eligible materials and supplies occurs for AFS purposes; or
- (c) Impairment loss reversal.

(4) Eligible materials and supplies book expense. The term eligible materials and supplies book expense means any of the following items, other than eligible materials and supplies book COGS depreciation, that are taken into account in FSI with respect to eligible materials and supplies--

- (a) Depreciation expense;
- (b) Other recovery of AFS basis (including from an impairment loss) that occurs either:

- (i) Prior to the taxable year in which the complete disposition of the eligible materials and supplies occurs for AFS purposes, or
- (ii) In the taxable year in which the complete disposition of the eligible materials and supplies occurs for AFS purposes; or

- (c) Impairment loss reversal.

(5) Eligible materials and supplies book inventoriable expense. The term eligible materials and supplies book inventoriable expense means any of the following items that are included in inventoriable cost (or capitalized as part of the cost of non-inventory property held for sale) in the AFS of a CAMT entity with respect to eligible materials and supplies--

- (a) Depreciation expense;
- (b) Other recovery of AFS basis (including from an impairment loss) that occurs either:
  - (i) Prior to the taxable year in which the complete disposition of the eligible materials and supplies occurs for AFS purposes, or
  - (ii) In the taxable year in which the complete disposition of the eligible materials and supplies occurs for AFS purposes; or
- (c) Impairment loss reversal.

(6) Eligible materials and supplies tax COGS. The term eligible materials and supplies tax COGS means:

- (a) The eligible materials and supplies capitalized to inventory under § 263A and recovered as part of cost of goods sold in computing gross income; and
- (b) The eligible materials and supplies capitalized under § 263A to the basis of property described in § 1221(a)(1) that is not inventory and is recovered as part of the computation of gain or loss from the sale or exchange of such property in computing taxable income.

(7) Tax eligible materials and supplies section 481(a) adjustment. The term tax eligible materials and supplies section 481(a) adjustment means an adjustment (or portion thereof) required under § 481(a) for a change in method of accounting (other than a change in method of accounting described in section 7.02(8) of this notice) that impacts the timing of taking eligible materials and supplies into account in computing taxable income (for example, a change in method of accounting involving a change from deducting eligible materials and supplies to capitalizing such costs under § 263A or

another capitalization provision, or vice versa).

(8) Tax eligible materials and supplies capitalization method change. The term tax eligible materials and supplies capitalization method change means a change in method of accounting for regular tax purposes involving a change in the classification of eligible materials and supplies (for example, a change from treating eligible materials and supplies as inventory to treating the items as materials and supplies under § 1.162-3, or a change from capitalizing and depreciating eligible materials and supplies to deducting such eligible materials and supplies).

(9) Tax eligible materials and supplies capitalization method change AFSI adjustment.

(a) In general. The term tax eligible materials and supplies capitalization method change AFSI adjustment means an adjustment to AFSI that is required under section 7.03(6) of this notice if a CAMT entity makes a tax eligible materials and supplies capitalization method change and previously made an adjustment to AFSI under section 7 of this notice in a preceding taxable year. The tax eligible materials and supplies capitalization method change AFSI adjustment is computed separately for each tax eligible materials and supplies capitalization method change and equals the difference between the following amounts computed as of the beginning of the tax year of change:

(i) The cumulative amount of adjustments to AFSI under section 7.03 of this notice with respect to the cost(s) subject to the tax eligible materials and supplies capitalization method change that were made with respect to the preceding taxable years beginning with the first taxable year for which the CAMT entity makes an adjustment to AFSI under section 7 of this notice, and beginning before the tax year of

change; and

(ii) The cumulative amount of adjustments to AFSI under section 7.03 of this notice with respect to the cost(s) subject to the tax eligible materials and supplies capitalization method change that would have been made with respect to the preceding taxable years beginning with the first taxable year for which the CAMT entity makes an adjustment to AFSI under section 7 of this notice, and beginning before the tax year of change, if the new method of accounting for the cost(s) had been applied for regular tax purposes in those taxable years.

(b) Coordination with proposed § 1.56A-15. The amount of the tax eligible materials and supplies capitalization method change AFSI adjustment is adjusted, as necessary, to prevent the duplication of any adjustment to AFSI due to the tax materials and supplies capitalization method change also constituting a tax capitalization method change (as described in proposed § 1.56A-15(b)(10)).

.03 AFSI adjustment for eligible materials and supplies costs. The AFSI of a CAMT entity for a taxable year may be adjusted as follows--

(1) Reduced by eligible materials and supplies tax COGS, but only to the extent of the amount recovered--

(a) As part of cost of goods sold in computing gross income for the taxable year, or

(b) As part of the computation of gain or loss from the sale or exchange of non-inventory property described in § 1221(a)(1) that is included in taxable income, or deducted in computing taxable income, respectively, for the taxable year;

(2) Reduced by deductible eligible materials and supplies, but only to the extent of

the amount allowed as a deduction in computing taxable income for the taxable year;

(3) Adjusted to disregard eligible materials and supplies book COGS depreciation and eligible materials and supplies book expense with respect to eligible materials and supplies acquired in any taxable year, including in taxable years ending on or before December 31, 2019;

(4) Reduced by any tax eligible materials and supplies section 481(a) adjustment that is negative, but only to the extent of the amount of the adjustment that is taken into account in computing taxable income for the taxable year;

(5) Increased by any tax eligible materials and supplies section 481(a) adjustment that is positive, but only to the extent of the amount of the adjustment that is taken into account in computing taxable income for the taxable year; and

(6) Increased or decreased, as appropriate, by any tax eligible materials and supplies capitalization method change AFSI adjustment in accordance with section 7.05 of this notice.

.04 Determining eligible materials and supplies tax COGS adjustment and eligible materials and supplies book COGS depreciation adjustment.

(1) In general. Except as provided in section 7.04(2) of this notice, a CAMT entity is required to--

(a) Apply the method(s) of accounting the CAMT entity uses for AFS purposes to determine the eligible materials and supplies book COGS depreciation adjustment under section 7.03(3) of this notice; and

(b) Apply the method(s) of accounting under § 263A that the CAMT entity uses for regular tax purposes (and, in the case of inventory property, the method(s) of

accounting that the CAMT entity uses to identify and value inventories under §§ 471 and 472) to determine the eligible materials and supplies tax COGS adjustment under section 7.03(1) of this notice.

(2) Reasonable method. A CAMT entity is permitted to use any reasonable method to determine the eligible materials and supplies book inventoriable expense in ending inventory for AFS purposes for purposes of determining the eligible materials and supplies book COGS depreciation adjustment under section 7.03(3) of this notice, or to determine the eligible materials and supplies included in ending inventory for regular tax purposes for purposes of determining the eligible materials and supplies tax COGS adjustment under section 7.03(1) of this notice, or both, provided that such reasonable method is consistent with and reflects the method(s) of accounting the CAMT entity uses for AFS purposes or regular tax purposes, as applicable. A reasonable method would include a method similar to the simplifying methods provided in proposed § 1.56A-15(d)(3)(ii)(A) through (C).

(3) Reporting requirement. If a CAMT entity makes the AFSI adjustment provided in section 7 of this notice for a taxable year, it must attach a statement to its Federal income tax return for such taxable year. The statement--

- (a) Must be titled “AFSI adjustment for eligible materials and supplies”,
- (b) Must include the CAMT entity’s name, address, and taxpayer identification number,
- (c) If a CAMT entity uses a reasonable method under section 7.04(2) of this notice, it must: include a statement whether the CAMT entity is using such a reasonable method to determine (i) eligible materials and supplies book inventoriable

expense in ending inventory for AFS purposes for purposes of determining the eligible materials and supplies book COGS depreciation adjustment under section 7.03(3) of Notice 2026-7 for the taxable year, or (ii) eligible materials and supplies in ending inventory for regular tax purposes for purposes of determining the eligible materials and supplies tax COGS adjustment under section 7.03(1) of Notice 2026-7 for the taxable year, or (iii) both; describe such reasonable method(s) used; and certify that such reasonable method(s) used are consistent with, and reflect, the method(s) of accounting the CAMT entity uses for AFS purposes or regular tax purposes, as applicable.

.05 Adjustment period for tax eligible materials and supplies capitalization method change AFSI adjustment. The adjustment period for a tax eligible materials and supplies capitalization method change AFSI adjustment is determined consistent with the proposed rules provided in proposed § 1.56A-15(d)(4) (adjustment period for tax capitalization method change AFSI adjustments with respect to section 168 property).

.06 Consistency requirement. If a CAMT entity relies on section 7 of this notice and makes the adjustment to AFSI provided in section 7.03 of this notice for a taxable year, it must continue to make the adjustment provided in section 7.03 of this notice for all subsequent taxable years until all eligible materials and supplies are disposed of for AFS purposes or such time as prescribed by the Treasury Department and the IRS in regulations or guidance published in the Internal Revenue Bulletin.

.07 Determining applicable corporation status. For purposes of applying the average annual AFSI test in § 59(k)(1)(B) or proposed § 1.59-2(c), AFSI is determined without regard to the AFSI adjustments provided in section 7.03 of this notice.

## SECTION 8. TROUBLED COMPANIES

.01 Purpose. In response to comments received on Notice 2025-46, this section 8 clarifies the attribute reduction interim guidance for financially troubled companies provided in section 4.03 of Notice 2025-46 and clarifies and modifies the interim guidance provided in section 4.04(2)(a) of Notice 2025-46 regarding fresh start accounting gain and loss on non-transactional bankruptcy emergences. The Treasury Department and the IRS anticipate that the forthcoming proposed regulations will include proposed regulations under § 56A(c)(15) and (e) consistent with the guidance provided in this section 8.

.02 Application of § 1.1502-28. For purposes of applying the attribute reduction interim guidance provided in sections 4.03(4) and (5) of Notice 2025-46, § 1.1502-28 applies.

.03 AFSI consequences resulting from emergence from bankruptcy. Solely with regard to the emergence from bankruptcy of a CAMT entity, the CAMT entity determines its CAMT consequences resulting from that emergence (and not from a discharge of indebtedness or a domestic covered asset transaction, as provided in sections 4.03 and 4.04(3)(a) of Notice 2025-46, respectively) by--

- (1) Disregarding any resulting gain or loss that is reflected in the FSI of the CAMT entity; and
- (2) Determining the CAMT basis of any assets (other than the regular tax basis in the stock of a foreign corporation) of the CAMT entity by disregarding any adjustment to the AFS basis of those assets resulting from the emergence from bankruptcy.

## SECTION 9. PROPOSED COVERED ASSET TRANSACTION SECTION 358 ANTI- AVOIDANCE RULE

.01 Purpose. The Treasury Department and the IRS anticipate that the forthcoming proposed regulations will modify the proposed two-year rule in proposed § 1.56A-4(f)(1)(ii) consistent with the guidance described in this section 9.

.02 Proposed two-year rule rebuttable presumption. For purposes of proposed § 1.56A-4(f)(1), if within two years of the date the stock of a foreign corporation is received in a covered asset transaction, the basis in such stock is taken into account, in whole or in part, in determining the AFSI of the recipient CAMT entity or another CAMT entity, the covered asset transaction would be presumed to have a principal purpose to avoid treatment of such CAMT entity as an applicable corporation or to reduce or otherwise avoid a liability under § 55(a). The presumption described in the preceding sentence may be rebutted by facts and circumstances clearly establishing that the covered asset transaction was not undertaken with such a principal purpose.

.03 Procedure for rebutting presumption. In order to rebut the proposed two-year rule rebuttable presumption described in section 9.02 of this notice, a CAMT entity that would otherwise be required to take into account the increase to AFSI under proposed § 1.56A-4(f) for the taxable year in which the stock of the foreign corporation is received must attach a statement rebutting the presumption to the Form 4626, *Alternative Minimum Tax – Corporations*, filed with the CAMT entity's return for the taxable year in which the event triggering application of the proposed two-year rule (as modified by this notice) occurs. The statement must describe the facts and circumstances supporting the rebuttal and be in accordance with any procedures set forth in forms, instructions, or guidance published in the Internal Revenue Bulletin.

SECTION 10. AFSI ADJUSTMENT WITH RESPECT TO TRANSACTIONS INVOLVING

## INTANGIBLE PROPERTY SUBJECT TO SECTION 367(d)

.01 Purpose. The Treasury Department and the IRS anticipate that the forthcoming proposed regulations will address certain CAMT consequences of transactions involving intangible property subject to § 367(d) consistent with the guidance described in this section 10.

.02 AFSI adjustment for transactions involving the transfer of intangible property subject to § 367(d).

(1) Shareholder-level adjustment. A CAMT entity that is required to include an amount in gross income under § 367(d) for regular tax purposes for a taxable year increases its AFSI for such year by such amount. If regular tax basis is relevant in determining an amount included in gross income under § 367(d), CAMT basis is substituted for regular tax basis in determining the amount included in AFSI. This would be the case, for example, if an election is made under § 1.367(d)-1(g)(2) or 1.367(d)-1T(g)(2) to treat a transfer of intangible property to a foreign corporation as a sale, or if there is a disposition of the intangible property by the foreign corporation described in § 1.367(d)-1(f)(4)(i)(A).

(2) Foreign corporation-level adjustment. A foreign corporation that properly treats a deemed payment as an allowable deduction under § 1.367(d)-1(c)(2)(ii) or (e)(2)(ii) or reduces its gross income under § 1.367(d)-1(f)(2)(i) for regular tax purposes for a taxable year reduces its adjusted net income or loss (or AFSI, if the foreign corporation is an applicable corporation and the deduction or reduction reduces income described in § 882(b)) for such year by the amount of the deemed payment or the amount of the reduction in gross income. The preceding sentence applies only to the extent such

amounts increase the AFSI of a CAMT entity under proposed § 1.56A-4 as described in this section 10.

## SECTION 11. APPLICABILITY DATES AND RELIANCE

.01 Applicability dates. It is anticipated that the forthcoming proposed regulations will propose rules consistent with the guidance described in sections 3 through 10 of this notice that will apply for taxable years beginning on or after the date the final regulation addressing the AFSI adjustment or other modification to the CAMT Proposed Regulations described in a respective section of this notice is published in the *Federal Register*.

### .02 Reliance.

(1) In general. Subject to section 11.02(2), (3), and (4) of this notice, for all taxable years beginning before the date such forthcoming proposed regulations are published in the *Federal Register*, taxpayers may rely on the guidance in this notice. In addition, reliance on section 3, 4, 5, 6 or 7 of this notice is conditioned on the taxpayer meeting the consistency requirement set forth in that section. A taxpayer's reliance on any of the guidance in this notice for a taxable year will not cause the taxpayer to become subject to, or to violate, the proposed reliance rules, including the consistency requirements, provided in section 3.02(1) of Notice 2025-49 for such taxable year.

#### (2) Sections 9 and 10 of this notice.

(a) A taxpayer that relies on proposed § 1.56A-4 may rely on section 9 of this notice for taxable years beginning before the date the forthcoming proposed regulations are published in the *Federal Register*, provided that the requirements described in section 3.02(1)(b) of Notice 2025-49 are satisfied for all such taxable years beginning

with the first taxable year with respect to which the taxpayer relies on section 9 of this notice.

(b) A taxpayer that relies on proposed § 1.56A-4 may rely on section 10 of this notice for taxable years beginning before the date the forthcoming proposed regulations are published in the *Federal Register*, provided that the requirements described in section 3.02(1)(b) of Notice 2025-49 are satisfied for all such taxable years beginning with the first taxable year with respect to which the taxpayer relies on section 10 of this notice. A taxpayer that does not rely on section 10 of this notice may continue to rely on proposed §§ 1.56A-4 or 1.56A-6, as applicable, subject to the requirements of section 3.02(1) of Notice 2025-49.

(3) Section 4 of Notice 2025-49. As an alternative to relying on section 4 of Notice 2025-49 as modified by section 3 of this notice for all taxable years beginning before the date the forthcoming proposed regulations are published in the *Federal Register*, a taxpayer may instead choose to rely on section 4 of Notice 2025-49 as originally published for taxable years beginning before February 18, 2026, and rely on section 4 of Notice 2025-49 as modified by section 3 of this notice for taxable years beginning on or after February 18, 2026, and before the date that the forthcoming proposed regulations are published in the *Federal Register*. A taxpayer who chooses to rely on section 4 of Notice 2025-49 for taxable years beginning on or after February 18, 2026, may do so only if the taxpayer follows such section as modified by section 3 of this notice.

(4) Section 9 of Notice 2025-49. As an alternative to relying on section 9 of Notice 2025-49 as modified by section 4 of this notice for all taxable years beginning before the

date the forthcoming proposed regulations are published in the *Federal Register*, a taxpayer may instead choose to rely on section 9 of Notice 2025-49 as originally published for taxable years beginning before February 18, 2026, and rely on section 9 of Notice 2025-49 as modified by section 4 of this notice for taxable years beginning on or after February 18, 2026, and before the date that the forthcoming proposed regulations are published in the *Federal Register*. A taxpayer who chooses to rely on section 9 of Notice 2025-49 for taxable years beginning on or after February 18, 2026, may do so only if the taxpayer follows such section as modified by section 4 of this notice.

## SECTION 12. EFFECT ON OTHER DOCUMENTS

Section 4 of Notice 2025-46 is clarified and modified. Sections 4 and 9 of Notice 2025-49 are modified.

## SECTION 13. PAPERWORK REDUCTION ACT

The Paperwork Reduction Act of 1995 (44 U.S.C. §§ 3501-3520) (PRA) requires that a Federal agency obtain the approval of the Office of Management and Budget (OMB) before collecting information from the public, whether such collection of information is mandatory, voluntary, or required to obtain or retain a benefit. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number.

The collections of information in this notice are in sections 3.05(3), 4.06(3), 6.04(3), 7.04(3), and 9.03 of this notice.

Section 3.05(3) of this notice requires a CAMT entity to file a statement with its Federal income tax return if it makes the AFSI adjustment provided in section 3.04 of

this notice for a taxable year. The information requested in section 3.05(3) of this notice is required to obtain the benefit of making the AFSI adjustment described in section 3 of this notice. This information will be used by the IRS to confirm compliance with the guidance in section 3 of this notice. The likely respondents are corporations.

Section 4.06(3) of this notice requires a CAMT entity to file a statement with its Federal income tax return if it makes the AFSI adjustment provided in section 4.04 of this notice for a taxable year. The information requested in section 4.06(3) of this notice is required to obtain the benefit of making the AFSI adjustment described in section 4 of this notice. This information will be used by the IRS to confirm compliance with the guidance in section 4 of this notice. The likely respondents are corporations.

Section 6.04(3) of this notice requires a CAMT entity owner to file a statement with its Federal income tax return if it makes the AFSI adjustment provided in section 6.03 of this notice for a taxable year. The information requested in section 6.04(3) of this notice is required to obtain the benefit of making the AFSI adjustment described in section 6 of this notice. This information will be used by the IRS to confirm compliance with the guidance in section 6 of this notice. The likely respondents are corporations.

Section 7.04(3) of this notice requires a CAMT entity to file a statement with its Federal income tax return if it makes the AFSI adjustment provided in section 7 of this notice for a taxable year. The information requested in section 7.04(3) of this notice is required to obtain the benefit of making the AFSI adjustment described in section 7 of this notice. This information will be used by the IRS to confirm compliance with the guidance in section 7 of this notice. The likely respondents are corporations.

Section 9.03 of this notice requires a CAMT entity to file a statement with its Form

4626 if it chooses to rebut the two-year rebuttable presumption described in section 9.02 of this notice. The information requested in section 9.03 of this notice is required to obtain the benefit of the two-year rebuttable presumption and will be used by the IRS to confirm compliance with the guidance in section 9 of this notice. The likely respondents are corporations.

The reporting requirements in this notice will be included within OMB control number 1545-0123 in accordance with the PRA procedures under 5 CFR § 1320.10. The recordkeeping requirements are considered general tax records under § 1.6001-1(e). For PRA purposes, general tax records are already approved by OMB under 1545-0123 for business filers.

Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by § 6103.

#### SECTION 14. EFFECTIVE DATE

This notice is effective on February 18, 2026.

#### SECTION 15. DRAFTING AND CONTACT INFORMATION

The principal authors of this notice are personnel from the Office of Associate Chief Counsel (Income Tax & Accounting) and the Office of Associate Chief Counsel (International). Other personnel from the Treasury Department and the IRS participated in its development. For further information regarding this notice, contact the Office of the Associate Chief Counsel (Income Tax & Accounting), Branch 7, at (202) 317-7005 (not a toll-free number). For further information regarding section 8 of this notice, contact the Office of the Associate Chief Counsel (Corporate), Branch 5, at (202) 317-

5363 (not a toll-free number). For further information regarding sections 9 and 10 of this notice, contact the Office of Associate Chief Counsel (International), Branch 4, at (202) 317-6937 (not a toll-free number).