Tax Insights
from International Tax
Services

Tax Court rejects Section 245A limitation

July 30, 2026

In brief

What happened?

The United States Tax Court, in an opinion filed July 15, 2026, held that Siemens Medical Solutions USA, Inc. was entitled to a full dividends-received deduction under Section 245A for a dividend received from a foreign subsidiary in March 2019. The court concluded that the rules governing certain extraordinary dispositions under Temp. Treas. Reg. 1.245A-5T (the ‘Extraordinary Disposition Rules’) could not reduce the deduction because the regulation conflicted with the clear statutory text.

Why is it relevant?

The opinion rejects a Treasury regulation that attempted to close a transition-period gap created by differing effective dates in the Tax Cuts and Jobs Act (TCJA). The court reasoned that Treasury may not use regulatory authority to add a limitation that Congress did not include in the statute, even where Treasury believes the limitation is consistent with the broader policy of the international tax regime and where Congress has granted limited regulatory authority.

The decision closely follows the Tax Court's reasoning in *Varian Medical Systems, Inc. & Subs. v. Commissioner*, 163 T.C. 76 (2024), and applies the post-*Loper Bright* framework requiring courts to independently determine the best reading of the statute. It reinforces that a general grant of authority to issue 'necessary or appropriate' regulations does not permit Treasury to contradict an unambiguous statutory rule.

Actions to consider

Taxpayers with prior year or pending Section 245A positions involving the Extraordinary Disposition Rules should identify affected years, quantify potential adjustments, and consider whether protective or affirmative refund claims, amended returns, or changes to pending controversy positions may be appropriate. Taxpayers also should consider reviewing documentation supporting the statutory qualification analysis, relevant controlled foreign corporation (CFC) tax years, the source and timing of earnings and distributions, and any disclosure positions previously taken.

In detail

Background

Procedural posture

The case arose from a notice of deficiency for Siemens's tax years ended September 30, 2019, and September 30, 2021. The IRS disallowed part of the Section 245A deduction claimed for the 2019 tax year, and that disallowance resulted in related adjustments for the 2021 tax year. Siemens moved for summary judgment on the ground that the deficiencies depended on an invalid regulation, while the IRS cross-moved for summary judgment that the Extraordinary Disposition Rules were valid and applicable.

Relevant facts

Siemens Healthcare Diagnostics, Inc., a member of the petitioner's US consolidated group, owned 67.78% of SMS BVI, a Dutch company treated as a corporation for US federal tax purposes. During SMS BVI's fiscal year ended September 30, 2018, it sold assets to related Siemens entities, generating approximately €819 million of additional earnings and profits. On March 19, 2019, SMS BVI made a pro rata distribution, of which $670,616,109 received by the US group was treated as a foreign-source dividend. Siemens claimed a full deduction under Section 245A, but the IRS disallowed $314,992,962 under the Extraordinary Disposition Rules, leading to the deficiencies at issue.

Statutory framework and effective-date gap

Section 245A generally allows a domestic corporation a 100% deduction for the foreign-source portion of dividends received from a specified 10%-owned foreign corporation. Section 965 imposed a one-time transition tax on certain accumulated foreign earnings, while Section 951A established the GILTI regime for specified post-TCJA earnings. In broad terms, Section 965 addressed pre-2018 earnings, Section

951A addressed certain post-TCJA foreign earnings, and Section 245A generally exempted qualifying post-2017 foreign-source dividends from US federal income tax.

The provisions enacted by the TCJA did not have contiguous effective dates. Section 245A applies to qualifying distributions made after December 31, 2017, while Section 951A generally applies to tax years of foreign corporations beginning after that date, and Section 965 generally measured relevant earnings no later than December 31, 2017. For fiscal-year foreign corporations, those applicability dates could leave a gap in which earnings were subject to neither Section 965 nor Section 951A but could later support a dividend eligible for the Section 245A deduction. Congress considered different effective-date formulations in early drafts of the TCJA but ultimately enacted dates that resulted in this transition-period mismatch, referred to here as the ‘gap period.’

Extraordinary Disposition Rules

Treasury issued Temp. Treas. Reg. 1.245A-5T on June 18, 2019, to address the perceived gap created by the differing effective dates. The preamble explained that the rules were intended to prevent taxpayers from converting earnings that Treasury believed should have been subject to Section 965, subpart F, or GILTI into income eligible for the Section 245A deduction. The regulation created the Extraordinary Disposition Rules for certain related-party transactions occurring during a foreign corporation’s ‘disqualified period,’ as defined in the regulation.

A disposition generally qualified as extraordinary if it involved specified property, occurred while the foreign corporation was a CFC during the disqualified period, was outside the ordinary course of business, and was to a related party. Gain from such a transaction was tracked in an extraordinary disposition account. To the extent a later dividend was attributable to that account, the regulation disallowed 50% of the otherwise available Section 245A deduction. Treasury applied the rules retroactively under Section 7805(b)(2), which permits regulations to apply retroactively when filed within 18 months of the enactment of the statute to which the regulation relates.

Parties’ arguments

The parties did not dispute that Siemens otherwise qualified for the Section 245A deduction or that the 2018 transactions satisfied the regulatory definition of extraordinary dispositions. Siemens argued that the March 2019 dividend met every express statutory requirement and that Treasury could not impose a limitation absent from the text of Section 245A; it also raised retroactivity and Administrative Procedure Act (APA) objections. The IRS relied on the rulemaking authority in Sections 245A(g) and 7805(a), contending that the regulation was “necessary or appropriate” to implement the integrated structure of the TCJA’s international tax provisions. The dispute therefore centered on whether Treasury could use delegated rulemaking authority to limit a deduction that the statute’s plain language otherwise allowed in full.

Court's analysis and conclusion

The court concluded that Siemens satisfied every statutory requirement of Section 245A. The March 2019 dividend was paid after December 31, 2017, by a specified 10%-owned foreign corporation to a qualifying domestic corporate shareholder, and the dividend was entirely foreign source. Because the statute unambiguously allowed a deduction equal to the foreign-source portion of the dividend, Siemens was entitled to the full deduction.

Observation: The decision addresses the regulatory limitation at issue, not the other statutory requirements that may restrict a Section 245A deduction. Taxpayers relying on the opinion would still need to establish that the dividend independently satisfies all applicable statutory conditions.

The court then held that the Extraordinary Disposition Rules conflicted with the statute. Congress enacted different effective dates for Sections 245A, 951A, and 965, and the resulting transition-period gap reflected the statutory scheme Congress selected. Although the regulation did not formally change an effective date, the court concluded that its effect was materially similar: by disallowing 50% of the deduction for certain dividends, the rule approximated the tax treatment Treasury believed would have applied under the mandatory repatriation tax or GILTI, or, viewed another way, delayed the application of Section 245A for 50% of those dividends. Because that limitation depended on criteria—such as related-party status and whether a transaction occurred outside the ordinary course of business—that do not appear in the statute, the court concluded that the regulation could not override the statute's plain text.

Observation: The court treated the effective-date mismatch as the consequence of deliberate legislative choices rather than an ambiguity or loophole Treasury could resolve administratively. The *Siemens* decision, which was a unanimous decision but for one recusal, reflects a very limited interpretation of Treasury's rulemaking authority. The court's reasoning may be relevant to other regulations that seek to address perceived statutory gaps, particularly where Congress considered and enacted specific effective-date language.

Relying on *Varian Medical Systems, Inc. & Subs. v. Commissioner*, the court rejected the IRS's argument that the regulation was valid because it narrowly targeted transactions Treasury viewed as abusive. Treasury could not override clear statutory text based on its view that the statutory result was inconsistent with the broader policy of the TCJA. The court reasoned that, where Congress made a specific effective-date choice, Treasury could not substitute its own judgment about how the international provisions should operate together.

Observation: The opinion does not suggest that every targeted anti-abuse regulation is invalid. Rather, its reasoning is strongest where a regulation imposes a substantive limitation with no clear textual basis and the statutory language produces a definite result.

The court also rejected the IRS's reliance on the rulemaking authority in Sections 245A(g) and 7805(a). These are not regulatory grants that clearly indicate that Congress intended Treasury to expand or modify the application of a statute. Applying *Loper Bright Enterprises v. Raimondo*, the court independently interpreted Section 245A and concluded that the Extraordinary Disposition Rules exceeded the boundaries of Treasury's delegated authority. Because that conclusion resolved the case, the court did not address Siemens's separate challenges concerning retroactivity or compliance with the APA, which was the basis on which the same regulation was invalidated in an earlier *Liberty Global* decision.

Observation: The court's decision leaves the APA and retroactivity issues unresolved. Those arguments may therefore remain relevant in other disputes involving the Extraordinary Disposition Rules or other regulations issued with retroactive effect.

The court granted Siemens's motion for summary judgment, denied the IRS's cross-motion, and held that Siemens was entitled to the full Section 245A deduction for the March 2019 dividend.

Financial reporting considerations

ASC 740 requires a company to evaluate uncertain tax positions as of each balance sheet date to determine whether the facts and circumstances supporting the sustainability of a position have changed and whether the recognized tax benefit remains appropriate. Changes in the expected outcome of a position's sustainability should be supported by new information, rather than by a reassessment of information previously available. Because a court decision constitutes new information, the decision in *Siemens Medical Solutions USA, Inc. v. Commissioner* should be evaluated in the reporting period in which the decision was issued. If the decision occurred after a balance sheet date but before the issuance of a company's financial statements, subsequent event disclosures also should be considered.

Let’s talk

For a deeper discussion of how this decision might affect your business, please contact:

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