

TaxNewsFlash

United States



No. 2019-399
August 9, 2019

Proposed regulations: Classification of cloud-computing transactions, transactions involving digital content (text of regulations)

The U.S. Treasury Department and IRS this afternoon released for publication in the Federal Register proposed regulations (REG-130700-14) regarding the classification of cloud transactions for purposes of the international provisions of the Internal Revenue Code.

The proposed regulations also modify the rules for classifying transactions involving computer programs, including by applying the rules to transfers of digital content.

Read the [**proposed regulations**](#) [PDF 352 KB] (13 pages as published in the Federal Register)

Comments and requests for a public hearing must be received by November 12, 2019.

In brief (according to the preamble), these proposed regulations:

- Clarify the treatment under certain Code provisions for income from transactions involving on-demand network access to computing and other similar resources
- Extend the classification rules in existing Reg. section 1.861-18 to transfers of digital content other than computer programs, and clarify the source of income for certain transactions governed by the existing regulations
- Address a comprehensive basis for categorizing many common transactions involving what is referred to as "cloud computing"—typically characterized by on-demand network access to computing resources such as networks, servers, storage, and software
- Concern other transactions that are not solely related to computing, but still involve on-demand network access to technological resources ("cloud transactions")

The purpose of this report is to provide text of the proposed regulations.

The information contained in TaxNewsFlash is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230, as the content of this document is issued for general informational purposes only, is intended to enhance the reader's knowledge on the matters addressed therein, and is not intended to be applied to any specific reader's particular set of facts. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

KPMG International is a Swiss cooperative that serves as a coordinating entity for a network of independent member firms. KPMG International provides no audit or other client services. Such services are provided solely by member firms in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any member firm in any manner whatsoever.

Direct comments, including requests for subscriptions, to [Washington National Tax](#). For more information, contact KPMG's Federal Tax Legislative and Regulatory Services Group at + 1 202.533.4366, 1801 K Street NW, Washington, DC 20006-1301.

To unsubscribe from TaxNewsFlash-United States, reply to [Washington National Tax](#).

[Privacy](#) | [Legal](#)