



TaxNewsFlash

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IRS practice unit: Sourcing multi-year compensation, stock options, for foreign tax credit limitation

The IRS Large Business and International (LB&I) division publicly released a “practice unit”—part of a series of IRS examiner “job aides” and training materials intended to describe for IRS agents leading practices for specific international and transfer pricing issues and transactions—that concerns the sourcing of multi-year compensation arrangements, including stock options, with respect to the foreign tax credit limitation.

Specifically, the practice unit provides:

- An overview for the sourcing of multi-year compensation arrangements, including stock options, for the purpose of computing the foreign tax credit limitation
- A brief explanation of how equity-based compensation, such as statutory stock options and non-statutory stock options, is taxed

The practice unit (release date of September 23, 2016) is available on the IRS practice unit [webpage](#).

KPMG observation

The LB&I division uses the practice units to identify areas of strategic importance to the IRS, provide insight as to how IRS examiners will approach various transactions, and generally provide an understanding of the context in which an IRS examiner will approach a particular issue or transaction. Taxpayers (and their tax advisers) facing an IRS examination or concerned with issue(s) presented by the practice units will want to review the relevant practice units, so as to have a better understanding of the issues that may arise either prior to or during an examination. For instance, the IRS practice units typically provide information that can help taxpayers:

- Plan for appropriate documentation during return preparation
- Effectively approach certain elections or certain transactions

- Respond appropriately to IRS correspondence

For taxpayers selected for a pending IRS examination, the practice units can provide information that may assist with preparation for the examination. For taxpayers actually under examination, the practice units may provide information that can assist taxpayers respond to IRS requests.

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