Contents

Chapter 1	Tax Issues in Securitization Transactions				
	A. Introduction	1			
	B. Chapter Summary	3			
	C. Effects of TCJA	14			
Chapter 2	Types of Asset-Backed Securities				
	A. Introduction	19			
	1. Catalog of Securities	19			
	2. Avoidance of Entity-Level Tax	21			
	3. Uses of Securities—Summary	23			
	B. Pass-Through Certificates	28			
	1. General Description	28			
	2. Stripped Pass-Through Certificates	30			
	3. Senior/Subordinated Pass-Through				
	Certificates	32			
	4. Callable Pass-Through Certificates	32			
	5. LEGOs (Strips and Combinations at the				
	Holder's Option)	33			
	C. Pay-Through Bonds	35			
	D. Equity Interests in Issuers of Pay-Through				
	Bonds	39			
	1. Economic Features	40			
	2. Tax Features	41			
	3. GAAP Treatment	42			
	E. REMICs	46			
	F. Single Loan CMBS	48			
	G. Pass-Through Certificates Taxable as Debt	50			
	1. Description and Overview of Tax Issues	50			
	2. Application to Mortgages	52			
	H. FASITs (Rise and Fall)	54			
	I. Offshore Issuers	60			
	1. General Description of CDOs	60			
	2. Credit Default Swaps and Synthetic				
	CDOs	63			
	3. Catastrophe Bonds	67			
	J. Asset-Backed Debt Other than Pay-Through	(0)			
	Bonds	68			
	1. NIMS	68			
	2. Asset-Backed Commercial Paper and	<i>(</i>)			
	SIVs	69			
	a. Description	69			
	b. Tax Issues	71			

		3. Covered Bonds	72
		4. Stranded Cost Securitizations	74
	Κ.	Synthetic Variable Rate Tax-Exempt 1	Bonds 75
	L.	Credit Risk Transfer Securities	76
		1. Pre-2018 CRTS as Corporate Deb	t 77
		2. CRTS as REMIC Regular Interest	s 79
	M.	Partnership Issuers	82
		Securities Backed by Distressed Recei	vables 84
Chapter 3		e/Financing and Debt/Equity Issue	
		Introduction	85
		Issues Interrelated	87
	C.	Tests for Distinguishing a Sale From a	l
		Financing—Overview	89
		1. Tax Ownership	89
		2. Creditors' Rights Issues—A "True	e Sale"
		at Law	94
		3. GAAP	96
	D.	Distinguishing a Sale From a Financin	.g
		Detailed Discussion of Tax Standards	100
		1. Sources of Authority on Tax Own	ership 101
		a. Sale/Repurchase Agreements	102
		b. Installment Obligations	106
		c. Options	109
		d. Guarantees	116
		e. Equipment Trusts and Similar	•
		Arrangements	117
		f. Pass-Through Certificates	118
		g. Leased Property	118
		h. Conduit Arrangements	121
		i. Short Against the Box	127
		j. Forward Contracts	129
		k. Timing of Sales	133
		1. Total Return Swaps	135
		m. Transfers of Operating Reven	
		Stranded Cost Securitizations	137
		n. Variable Life Insurance and A	
		Contracts	139
		o. Agent Owned by Principal	141
		2. Transaction Patterns	144
		a. Transfer With No Strings	145
		b. Standard Package of Ties	145
		c. Credit Support	147
		d. Prepayment and Market Valu	e
		Guarantees	150

			e.	Call (Options and Rights of	
					itution	154
			f.		tion of Interest Rate Strips	155
	E.	Debt	t/Ec	uity Is		156
					of Tax Standards for	
					g Financial Instruments as Debt	157
					nce of Thin Capitalization and	
					ot Mismatches	163
			a.	Over	view	163
			b.	High	Quality Receivables and Parity	
				Class		163
				(i)	The NIPSCO and Principal	
					Life cases	167
				(ii)	Entrepreneurial risk	170
				(iii)	Relative ranking of claims	171
				(iv)	Owner with no economic stake	171
				(v)	Need for corporate tax	172
				(vi)	Resemblance to multiple-class	
					trust	172
				(vii)	Summary and intentional	
					mismatches for nonbelievers	175
			c.		er-Grade Receivables and	
					r/Senior Classes	177
				(i)	Is concentrated credit risk an	
					entrepreneurial risk?	178
				(ii)	Is there a quality threshold?	179
				(iii)	If equity is needed, how much	
				<i></i> .	is enough?	183
		-	~	(iv)	F.S.A. 200130009	187
					ization of High-Coupon Debt	190
			-	•	terests Treated as Debt	193
			a.	Over		193
			b.		t Card Trusts Issuing Pass-	105
					igh Debt Certificates	195
			c.		ty of Taxpayers to Disavow	100
			L	Form		199
			d.		Debt-Like Equity	204
				Distil	nguished	204
Chapter 4	Clas	ssifi	cati	ion of	Issuers Other Than REMICs	217
				ction		217
	В.	Over	rvie	w of I	Entity Classification Regulations	221
		1.	Ger	neral		221

	2.	Per se Corporations	223							
	3.		225							
	4.	Effect of Elective Changes in								
		Classification								
	5.	Number of Owners								
	6.	Treatment of Disregarded Entity	238							
		a. Special Rules for Banks	240							
		b. International Tax Rules	241							
		c. Legal Separateness Counts	243							
		d. Tax Collections and Administration	246							
		e. Other Federal Taxes	247							
	7.	Transition Rules	248							
C.	Ex	istence of an Entity	249							
	1.	Overview	249							
	2.	Segregated Portfolio Companies	257							
		a. Revenue Ruling 2008-8	258							
		b. Notice 2008-19	260							
		c. P.L.R. 200803004	261							
		d. Proposed Regulations	261							
D.	Sta	tatus of Investment Trusts as Trusts or								
		siness Entities	268							
	1.	Overview—Trust Defined	268							
	2.	Family Trusts, Business Trusts, and								
		Investment Trusts	271							
		a. Family Trusts	272							
		b. Business Trusts	272							
		c. Investment Trusts	273							
	3.	Trusts Holding Real Property Mortgages								
		as Business Trusts	275							
	4.	Permitted Activities of Investment Trusts	277							
		a. Existence of a "Power"	279							
		b. Power Under "Trust Agreement"	280							
		c. Assets Acquired After Formation	280							
		d. Temporary Reinvestments	282							
		e. Modifications of and Distributions on	-							
		Trust Investments	283							
		(i) No discretion	284							
		(ii) Discretion to approve or								
		disapprove and impairment	285							
		(iii) Discretion to modify with								
		impairment	286							
		(iv) Discretion to approve or								
		disapprove without impairment	286							
		11 1 1								

			(v) Discretion to modify and no	
			impairment	288
		f.	Partnership Interests and Loan	
			Participations	288
		g.	Inside Reserve Funds	290
		h.	Nondiscretionary Reinvestments	291
		i.	Certificate Holder Approval	292
		j.	Incurrence of Debt	293
		k.	Swaps and Other Derivatives	295
	5.	Мı	ultiple Ownership Classes	297
		a.	Overview	297
		b.	Reasons for Sears Regulations	301
	6.	Fu	rther Applications of "Incidental"	
		Ex	ception	306
		a.	5	307
		b.	Reallocation of Payments on a Single	
			Bond Following a Default	316
		c.	Serialization of Sinking Fund Bonds	318
		d.	Equity Strips	319
	7.		finition of Ownership Interest	323
E.			e Mortgage Pools	326
	1.		lationship to REMICs	328
	2.	De	finition of TMP	330
		a.		330
		b.	Maturities Test	334
		c.	Relationship Test	336
			(i) Payments on asset obligations	337
			(ii) Terms of debt obligations or	
			underlying arrangement	337
			(iii) Required relationship	338
			(iv) Examples involving revolving	
			pools and debt issuances	339
		d.	Portion Rule	343
		e.	Distressed Mortgages	345
		f.	Testing Dates	349
		g.	Anti-Avoidance Rule	349
	3.		fective Date Issues	352
F.			y Traded Partnerships	353
	1.		verview	353
	2.	De	finition of PTP	355
		a.	Interests	355
		b.	Traded	356

xxviii	

	3.	Passive Income Exception	360
		a. Qualifying Income—General	
		Definition	361
		b. Interest From a Financial Business	365
		(i) Traditional definitions of a	
		financial business	367
		(ii) Relevant factors	376
		(iii) Application to securitization vehicles	380
Chapter 5	Trusts	s Issuing Pass-Through Certificates	
	Tay	xable as Grantor Trusts or Partnerships	383
	A. Int	troduction	383
	B. Gr	antor Trusts	385
	1.	Introduction to Grantor Trust Rules	385
	2.	Application of Grantor Trust Rules to	
		Investment Trusts	387
	3.	Certificate Holders as Co-Owners of	
		Trust Assets	389
	4.	Income Reporting	392
	5.	Redemptions of Certificates	395
	6.	Trust Existence Given Some Effect	397
	7.	Senior/Subordinated Pass-Through	
		Certificates	400
	C. Tr	usts Taxed as Partnerships	402
	1.	Introduction and Summary of Subchapter	
		K	402
	2.		408
	3.		412
	4.	Guaranteed Payments	417
	5.	Partnership Audits and Electing Large	
		Partnerships	420
	6.	Disposition of Interests	425
	7.	Partnership Debt That is Recharacterized	105
		as Equity	427
		a. Foreign Investors	429
	0	b. Tax-Exempt Organizations	434
	8. D	Election Out of Partnership Rules	435
		her Differences	441
Chapter 6	-	fication and Taxation of REMICs	445
		troduction	445
		EMIC Qualification Tests	446
	1.		449
		a. Definition of Interest	450

C.

D.

		(i)	Servicing	452
		(ii)	Stripped interests	453
		(iii)	Claims under credit	100
		(111)	enhancement contracts	454
		(iv)	Rights to acquire mortgages or	101
		(11)	other assets	454
		(v)	De minimis interests	457
		(v) (vi)	Rights of others in foreclosure	137
		(*1)	property	457
	b.	Defin	ition of Regular Interest	458
	о. с.	Defin	ition of Residual Interest	459
	d.		ng of Issuance of REMIC	ч.) /
	u.		ests—Pre-Existing Entities	460
	e.		Requirements	460
2.		ets Te		462
2.				462
	a.		fied Mortgages Obligations (and interests in	403
		(i)	obligations)	466
		(::)		400
		(ii)	Principally secured	471 481
		(iii)	Real property	481
		(iv)	Acquisition of qualified	100
		()	mortgages	486
		(v)	Qualified replacement	400
		$\langle \cdot \rangle$	mortgages	488
		(vi)	Reasonable belief safe harbor	401
		D	and 90-day rule	491
	b.		itted Investments	495
		(i)	Cash flow investments	495
		(ii)	Qualified reserve assets	497
		(iii)	Foreclosure property	502
3.			ents Test	505
		Taxes		508
1.			Transactions Tax	509
2.			ontributions	514
3.			come From Foreclosure	
		perty		516
Spe		Topics		518
1.	Cre		hancement Contracts	519
	a.		ition of Credit Enhancement	
		Contr		519
	b.		ment of Credit Enhancement	
		Contr	acts and Similar Arrangements	523

		(i) Other arrangements	523
		(ii) Credit enhancement contracts	525
	2.	Modifications and Assumptions of	
		Mortgages	526
		a. General	526
		b. Likely Modifications	527
		c. Material Modifications	527
		(i) Definition of "modification"	528
		(ii) When modification is	
		"significant"	532
		d. REMIC Regulations	541
	3.	Release Rule	544
		a. Before 2009	545
		b. Current Rule	546
		c. Defeasance Exception	552
	4.	Convertible Mortgages	554
	5.	Prepayment Premiums	557
		a. Mortgage Prepayments	557
		b. Premiums on Regular Interests	559
	6.	Prepayment Interest Shortfalls	559
	7.	Distressed Mortgages	560
		a. Post-Acquisition Defaults	562
		b. Industry and Government Loan	
		Modification Programs	564
		c. Pre-Acquisition Defaults	566
		(i) Qualified mortgage	566
		(ii) Foreclosure property	568
		d. REMICs Acquiring Mostly Defaulted	
		Loans	569
	8.	Integration	572
		a. Multiple-Tier REMICs	573
		b. Outside Reserve Funds	575
		c. Packaging REMIC Interests With	
		Other Financial Instruments	577
	9.	Qualified Mortgages With Future	
		Advances	580
	10.	Guaranteed Final Maturity Classes	584
	11.	Re-REMICs	586
	12.	Short-Term REMICs and the Economic	
		Substance Doctrine	587
	13.	Settlements for Contractual Breaches	588
E.	RE	MIC Elections and Other Procedural	
	Ma	tters	591
	1.	Elections	591

		2.	Oth a. b. c.	er Procedural Matters General Payment of REMIC Ta: Recordkeeping	xes	595 595 600 601
Chapter 7	De	fini		f REMIC Regular Ir	nterest	603
enupter /	A.		ervie			603
	B		ced T			604
	C.			d Interest Rates		605
	с.	1.		roportionately High Int	erest	606
		2.		d Rates		607
		3.		able Rates		609
			a.	Qualifying Index		609
			b.	Weighted Average Rate	es	611
				(i) Identification of		613
				(ii) Determination of	rate	618
				(iii) Calculation of av	erage	619
			c.	Rate Adjustments		620
			d.	Caps and Floors		621
			e.	Combinations of Rates		625
		4.	Spe	ified Portions		625
			a.	Definition of Specified		626
				(i) Fixed or variable		627
				(ii) Individual mortga	ages or pools	631
				(iii) Marker classes		633
			b.	Interest Payments		633
			c.	Specified Portions Can	~	635
		5.		parison of Specified Po	ortion and	
				ghted Average Rates		636
	D.			encies		637
		1.		ingencies Affecting Pri	-	638
	_	2.		ingencies Affecting Int	erest	643
	E.			Topics		644
		1.		ng of Principal Paymer	nts	644
		2.		-Pro Rata Payments		646
		3.		ifications		646
		4.		ping of Regular Interes		647
		5.		ling of Regular Interest	S	648
		6.		RA Registration		648
	Б	7. E		omination in Foreign C	urrency	648
	F.		ampl			650
		1.		le REMIC		651
			a.	Qualifying Variable Ra	tes	651

	ł	 Weighted Average Rates 	652
	C	c. Combination Rates	654
	C	d. Specified Portion Rates	654
	e	e. Variable Caps	656
	f	E. Deferral of Interest	656
	ş	g. Prepayment Premiums	657
		Two-Tier REMICs	657
	8	a. Specified Portion Rates	657
	ł	b. Marker Classes	658
	C	e. Variable Rates	659
	3. H	Re-REMICs	662
	4. I	Reverse Mortgages	663
Chapter 8		n of Holders of Asset-Backed	
		rities Taxable as Debt	665
	A. Intro		665
		view of Taxation of Discount and	
	Prem		671
		inal Issue Discount	675
	1. (DID Defined	675
		a. Stated Redemption Price at Maturity	677
		b. Issue Price	679
		Debt Instruments Subject to the PAC	60.1
		Method	681
		DID Accruals for Debt Instruments	(0.0
	(Generally	683
		a. Constant Yield Method	683
		b. Acquisition Premium	685
		c. Specified Contingencies	686
		d. Partial Prepayments	687
		e. Variable and Contingent Rates	688
		DID Accruals Under the PAC Method	692
		a. Overview	692
		b. Prepayment Assumption	695
		c. Accruals of OID	697
		d. Example	699 702
		e. Variable Rates	702
	D. Strip	ped Bond Rules	705
		Definition of Stripped Bond or Coupon	705
		Freatment of Stripped Bonds	709
		Special Rules for Tax-Exempt Bonds and Fax-Credit Bonds	712
		ax-Credit Bonds	713 715
		Discount	715
		Detailed Discussion	713
	<u>4</u> . 1		/1/

F.		miu		724
	1.		erview	724
	2.		nd Premium Regulations	726
~	3.		C Method	728
G.			Considerations for Pass-Through	
			ates and Other Pools	730
	1.		erview	730
	2.		D in Residential Mortgages and Other	
			nsumer Loans	732
			Overview	732
		b.		736
	3.	Ap	plication of PAC Method	739
		a.	Overview	739
		b.	Existence of a "Pool"	740
		c.	Other Implementation Issues	744
	4.	Sin	plifying Conventions	746
		a.	Overview	746
		b.	Available Conventions	746
		c.	OID on Credit Card Receivables	748
		d.	Effects of Aggregation	752
			(i) Uniform loans	753
			(ii) Loans not uniform	754
Η.	Spe	ecial	Topics	755
	1.	Pre		
		Inte	erests	755
		a.	Overview	755
		b.	Effect of Prepayments on Bond	
			Premium Amortization	756
		c.	Obstacles to Applying Section 171	758
			(i) Existence of premium	758
			(ii) TRA 1986 legislative history	760
		d.	Other Considerations	762
			(i) Comparison with IO Strips	762
			(ii) Clear reflection of income	762
			(iii) Effect on residual interests	763
		e.	The Glick Decision	763
		f.	Announcement 2004-75	765
	2.	Dis	tressed Debt	767
		a.	Overview	767
		b.	Market Discount on Highly	
			Speculative Debt	779
			•	

		3.	Basis-First Recovery For Pools of Motley	
			Receivables	784
		4.	Modifications of Discount Debt	
			Instruments	789
			a. Current Law	790
			b. Recent Sales Exception for Debt	
			Issued Before November 2012	794
		5.	Combination Securities	798
			a. NPCs Generally	800
			b. Contingent NPCs	804
			c. Call Options	806
			d. Other Consequences of Separate	
			Treatment	808
		6.	Integration of Debt Instruments and	
			Hedging Contracts	809
			a. Overview	809
			b. Qualifying Debt Instruments	811
			c. § 1.1275-6 Hedge	812
			d. Identification Requirements	812
			e. Effect of Integration	813
		7.	Payment Lags for REMIC Regular	
			Interests	814
		8.	REMIC Regular Interests as Investment	
			in United States Property	817
		9.	Repricing	819
	I.		ok Income Acceleration Rule	821
		1.		821
		2.	1	823
		3.	Application to Debt Instruments	826
Chapter 9	Та	axti	on of Holders of Equity Interests in	
•			st Issuers of Debt and REMIC Residual	
	Inte		rests	833
	A.	Inti	oduction	833
	В.	Co	mmon Tax Characteristics	834
	C.	Spe	ecial Considerations Applicable to Trust	
		Issu	iers	836
		1.	General	836
		2.	Limitation on Business Interest	841
			a. Overview	841
			b. Effect on Trust Issuers	844
			c. Business Versus Investment	845
			d. Interest Income or Expense	848
			e. Partnerships—Description of Rules	849

			f.	Coordination of Partnership and	0.50	
	Б	G	• 1	Partner Interest Limitations	852	
	D.			Considerations Applicable to REMICs	855	
		1.		MIC Taxable Income	855 865	
		2.		nitations on Using REMIC Losses		
		3.		positions of REMIC Interests	867	
	E.	4.		MICs as Separate Entities n Income	871 872	
	E.	1.		erview	872	
		1. 2.		chnical Description	872	
		2. 3.		e of Phantom Losses	878	
		5.	a.		070	
			а.	Phantom Losses Through Sales	878	
			b.	Attempts to Duplicate Losses	878	
		4.		ecial Rules for REMICs—Excess	070	
		••		lusions	882	
			a.	Overview	882	
			b.	Definition of Excess Inclusion	888	
			с.	Pass-Thru Entities	889	
			d.	Surrogate Taxes on Excess Inclusions		
				Allocable to Certain Governmental		
				Entities	893	
				(i) Transfer tax	894	
				(ii) Tax on pass-thru entities	895	
			e.	Certain Tax-Motivated Transfers		
				Disregarded	897	
				(i) Transfers to U.S. persons	897	
				(ii) Transfers to foreign investors	903	
			f.	Flaws in Excess Inclusion Rules	905	
		5.		ecial Rule for REMICs—Negative		
			Va	lue Residual Interests	906	
			a.	Ownership	906	
			b.	Inducement Fees	907	
			c.	Sale or Exchange	910	
			d.	Negative Basis or Issue Price	912	
Chapter 10				f Taxable Mortgage Pools and		
	Holders of Equity Interests in Taxable					
				ge Pools	915	
				ction	915	
				mposed on TMPs	915	
	C.			n of Equity Owners	918	
	D.	RE	ITs		920	

	1. Taxation of REITs	920			
	2. REIT/TMPs as Quasi REMICs	921			
Chapter 11	Special Rules for REITs, Tax-Exempt				
	Organizations, Financial Institutions, and				
	Securities Dealers	925			
	A. Introduction	925			
	B. REIT Assets and Income Tests	925			
	1. General	925			
	2. Use of REIT Subsidiaries	933			
	C. Tax-Exempt Organizations	936			
	D. Life Insurance Companies	938			
	E. Banks and Thrift Institutions	939			
	1. Rules Relating to Debt Instruments	939			
	2. Other Special Rules for Thrift Institutions	944			
	F. Mark-to-Market Rules for Securities Dealers	949			
	1. Overview	949			
	2. Definition of Dealer	951			
	3. Definition of Securities	958			
	4. Exceptions to Mark-to-Market				
	Requirement	964			
	5. Treatment of Gains and Losses	970			
	6. Securitization Transactions	974			
	7. Issues in Valuing Securities	975			
	a. Fair Value Accounting for Illiquid				
	Securities	978			
	b. Book-Tax Conformity	982			
Chapter 12	Taxation of Foreign Investors	987			
•	A. Introduction	987			
	B. TEFRA Registration Requirements	989			
	1. Overview	989			
	2. Registered Form	992			
	3. Registration-Required Obligation	998			
	4. Asset-Backed Securities	1001			
	a. Pass-Through Certificates—Current				
	Regulations	1003			
	b. Pass-Through Certificates—Proposed				
	Changes	1005			
	C. Withholding Tax	1008			
	1. Overview	1008			
	2. Portfolio Interest Exemption	1017			
	3. Swaps, Rents, Options, and Debt-Related				
	Fees	1027			

)27 a. NPC Income

	D. E.	 b. Rents c. Option Income d. Debt-Related Fees 4. Withholding Agents FIRPTA FATCA Reporting and Withholding Tax 1. Introduction 2. Practical Consequences for 	1030 1031 1031 1037 1041 1044 1044
		Securitizations 3. FATCA Definitions	1048 1050
		4. Foreign Financial Institutions	1050
		5. Non-Financial Foreign Entities	1057
		6. Intergovernmental Agreements	1058
		a. Model 1 IGA	1058
		b. Model 2 IGA	1060
		7. Effective Dates and Grandfather Rules	1061
		a. Obligations Generally	1062
		b. Foreign Passthru Payments	1063
		c. Pre-existing Securitization Vehiclesd. Expanded Affiliate Rule	1063 1064
Chapter 13		fshore Issuers	1067
Chapter 13	A.	Introduction	1067
Chapter 13	A. B.	Introduction Definition of Foreign Corporation	
Chapter 13	A.	Introduction Definition of Foreign Corporation Summary of Tax Rules for Foreign	1067 1072
Chapter 13	A. B. C.	Introduction Definition of Foreign Corporation Summary of Tax Rules for Foreign Corporations	1067 1072 1078
Chapter 13	A. B.	Introduction Definition of Foreign Corporation Summary of Tax Rules for Foreign	1067 1072
Chapter 13	A. B. C.	Introduction Definition of Foreign Corporation Summary of Tax Rules for Foreign Corporations Taxation of Effectively Connected Income 1. Trade or Business—Common Law Definition	1067 1072 1078
Chapter 13	A. B. C.	Introduction Definition of Foreign Corporation Summary of Tax Rules for Foreign Corporations Taxation of Effectively Connected Income 1. Trade or Business—Common Law Definition 2. Securities Trading Safe Harbor	1067 1072 1078 1079 1082 1085
Chapter 13	A. B. C.	Introduction Definition of Foreign Corporation Summary of Tax Rules for Foreign Corporations Taxation of Effectively Connected Income 1. Trade or Business—Common Law Definition 2. Securities Trading Safe Harbor 3. Special Topics	1067 1072 1078 1079 1082 1085 1088
Chapter 13	A. B. C.	 Introduction Definition of Foreign Corporation Summary of Tax Rules for Foreign Corporations Taxation of Effectively Connected Income 1. Trade or Business—Common Law Definition 2. Securities Trading Safe Harbor 3. Special Topics a. Derivatives 	1067 1072 1078 1079 1082 1085 1088 1088
Chapter 13	A. B. C.	 Introduction Definition of Foreign Corporation Summary of Tax Rules for Foreign Corporations Taxation of Effectively Connected Income 1. Trade or Business—Common Law Definition 2. Securities Trading Safe Harbor 3. Special Topics a. Derivatives b. Loan Origination 	1067 1072 1078 1079 1082 1085 1088 1088 1090
Chapter 13	A. B. C.	 Introduction Definition of Foreign Corporation Summary of Tax Rules for Foreign Corporations Taxation of Effectively Connected Income 1. Trade or Business—Common Law Definition 2. Securities Trading Safe Harbor 3. Special Topics a. Derivatives b. Loan Origination c. Loan Waivers 	1067 1072 1078 1079 1082 1085 1088 1088 1088 1090 1102
Chapter 13	A. B. C.	 Introduction Definition of Foreign Corporation Summary of Tax Rules for Foreign Corporations Taxation of Effectively Connected Income 1. Trade or Business—Common Law Definition 2. Securities Trading Safe Harbor 3. Special Topics a. Derivatives b. Loan Origination c. Loan Waivers d. Foreclosure Property 	1067 1072 1078 1079 1082 1085 1085 1088 1088 1090 1102 1104
Chapter 13	A. B. C.	 Introduction Definition of Foreign Corporation Summary of Tax Rules for Foreign Corporations Taxation of Effectively Connected Income 1. Trade or Business—Common Law Definition 2. Securities Trading Safe Harbor 3. Special Topics a. Derivatives b. Loan Origination c. Loan Waivers d. Foreclosure Property 4. Effective-Connection Test 	1067 1072 1078 1079 1082 1085 1088 1088 1088 1090 1102
Chapter 13	A. B. C.	 Introduction Definition of Foreign Corporation Summary of Tax Rules for Foreign Corporations Taxation of Effectively Connected Income 1. Trade or Business—Common Law Definition 2. Securities Trading Safe Harbor 3. Special Topics a. Derivatives b. Loan Origination c. Loan Waivers d. Foreclosure Property 4. Effective-Connection Test 5. Deemed Business Investments 	1067 1072 1078 1079 1082 1085 1085 1088 1088 1090 1102 1104
Chapter 13	A. B. C.	 Introduction Definition of Foreign Corporation Summary of Tax Rules for Foreign Corporations Taxation of Effectively Connected Income 1. Trade or Business—Common Law Definition 2. Securities Trading Safe Harbor 3. Special Topics a. Derivatives b. Loan Origination c. Loan Waivers d. Foreclosure Property 4. Effective-Connection Test 	1067 1072 1078 1079 1082 1085 1085 1088 1088 1090 1102 1104
Chapter 13	A. B. C. D.	 Introduction Definition of Foreign Corporation Summary of Tax Rules for Foreign Corporations Taxation of Effectively Connected Income 1. Trade or Business—Common Law Definition 2. Securities Trading Safe Harbor 3. Special Topics a. Derivatives b. Loan Origination c. Loan Waivers d. Foreclosure Property 4. Effective-Connection Test 5. Deemed Business Investments (Partnerships With ECI and Real Property 	1067 1072 1078 1079 1082 1085 1088 1088 1088 1090 1102 1104 1105
Chapter 13	A. B. C. D.	 Introduction Definition of Foreign Corporation Summary of Tax Rules for Foreign Corporations Taxation of Effectively Connected Income 1. Trade or Business—Common Law Definition 2. Securities Trading Safe Harbor 3. Special Topics a. Derivatives b. Loan Origination c. Loan Waivers d. Foreclosure Property 4. Effective-Connection Test 5. Deemed Business Investments (Partnerships With ECI and Real Property Interests) 	1067 1072 1078 1079 1082 1085 1088 1088 1088 1090 1102 1104 1105

xxxviii

	G.	Ta	xatic	n of Equity Interests in an Offshore	
				Held by U.S. Persons	1125
		1.		roduction	1125
		2.	Pre	-2018 General Tax Treatment of	
			Fo	reign Corporations	1126
		3.		st-2017 General Tax Treatment of	
			Fo	reign Corporations	1129
		4.	An	ti-Deferral Regimes—Overview	1133
		5.		ssive Foreign Investment Companies	
				FICs)	1135
		6.		ntrolled Foreign Corporations (CFCs)	1144
		7.		erlap	1150
	H.	Inv	esto	rs That Are Tax-Exempt Organizations	1152
	I.			re Issuers of Catastrophe Bonds	1155
	J.			ship Issuers	1160
Chapter 14	Le	gen	ding	and Information Reporting	1167
·····	A.			ction	1167
	B.			Regular Interests and Pay-Through	
			nds		1169
		1.	Ov	erview	1169
		2.	Re	porting at Time of Issuance (Form	
			88		1172
		3.		going Reporting	1173
	C.	Pas		rough Certificates Issued by Grantor	
			ists		1181
		1.	Ov	erview	1181
		2.	Re	porting by WHFITs	1183
			a.	Terminology and Overview	1183
			b.	Who Reports to Whom	1185
			c.	Timing and Method of Reporting—	
				General	1186
			d.	What is Reported—General	1188
				(i) Form 1099	1188
				(ii) Statement to TIH	1188
			e.	What is Reported—Special Rules	1190
				(i) General <i>de minimis</i> exception	1190
				(ii) Qualified NMWHFIT	
				exception	1191
				(iii) Special <i>de minimis</i> exception	
				for WHMTs	1192
				(iv) NMWHFIT final tax year	
				exception	1192
			f.	Simplified Reporting.	1193

		(i) Safe harbor for certain	
		NMWHFITs	1193
		(ii) Safe harbor for certain	
		WHMTs	1195
		g. Directory of WHMT Trustees	1197
		3. Grantor Trusts That Are Not WHFITs	1198
	D.	Equity Interests in Partnerships	1200
		1. General	1200
		2. Synthetic Variable Rate Tax-Exempt	
		Bonds	1202
	E.	REMIC Tax Returns	1203
	F.	Broker Reporting of Sales and Backup	
		Withholding	1207
	G.	Nominee Reporting to Issuers	1209
	Н.	Offshore Issuers	1210
		1. Overview	1210
		2. Foreign Corporations	1212
		3. Foreign Partnerships	1216
		4. Foreign Trusts	1219
		5. Foreign or Foreign-Owned Disregarded	
		Entities	1223
		6. Reporting of Foreign Accounts and	
		Assets	1224
	I.	Borrower and Miscellaneous Income	
		Reporting	1226
	J.	FBAR Filings	1232
	К.	Qualified Tax Credit Bonds and Build	
		America Bonds	1234
Chapter 15	Та	xation of Sponsors	1237
F		Introduction	1237
	B.	Sponsors That Are Loan Servicers, Securities	
		Dealers, or Members of Consolidated Groups	1238
		1. Excess Servicing	1238
		2. Mark-to-Market Accounting for	
		Securities Dealers	1239
		3. Intercompany Transactions	1240
	C.	Pass-Through Certificates	1241
		1. Issuer Classified as Trust	1242
		2. Issuer Classified as Business Entity	1248
	D.	Asset-Backed Securities Taxable as Debt	1251
	E.	REMICs	1255
		1. General	1255

	2. Short-Term REMICs	1261				
Chapter 16 Tax	Tax Law Aggregation or Separation of					
-	Property Interests	1267				
	Introduction	1267				
B.	Common Law Aggregation of Claims Against					
	Unrelated Parties	1271				
	1. General	1271				
	2. Similarity	1271				
	3. Stapling	1273				
	4. Offset	1275				
	a. Hedging Transactions	1275				
	b. Tax Straddles	1277				
	5. Income Rights	1278				
	6. Guarantees	1280				
C.	Common Law Aggregation of Claims Against					
	One Person	1281				
	1. General	1281				
	2. Similarity	1282				
	3. Stapling	1283				
	a. Stock Options Combined with Stock					
	or Debt	1283				
	b. Stock Forward Plus Debt	1286				
	c. Debt and Stock	1288				
	4. Offset	1290				
	5. Related Party Ownership	1294				
D.	Rules-Based Aggregation	1294				
	1. General	1294				
	2. Debt and Hedges	1294				
	a. Integration	1294				
	b. Timing and Character Matching	1296				
	c. Source Matching	1297				
	d. Tax Straddles	1299				
	e. Constructive Sales	1300				
	f. Special Foreign Currency Rules	1300				
	g. Subpart F (FPHCI Income)	1301				
	3. Debt Aggregation Under OID	1302				
	Regulations 4. Debt Pools	1302				
	 Equity in Partnerships and Disregarded 	1302				
	Entities	1303				
	6. Section 167(e)	1303				
	7. Stock Redemptions	1304				
E.	Common Law Separation of Single	1504				
D .	Instruments	1305				

	1.	General	1305					
	2.	Debt	1305					
		a. Conventional Debt	1305					
		b. Convertible Bonds and Exchangeable						
		Bonds	1307					
		c. Contingent Payment Debt	1310					
		d. Debt Plus Ownership Interests in						
		Tangible Property	1310					
		e. Stripping Out Services	1311					
	3.	Stock	1312					
		a. Carving Up Conventional Stock	1313					
		(i) Americus Trust	1313					
		(ii) Dividend stripping	1315					
		(iii) Unbundled stock units	1316					
		b. Unconventional Rights Against Issuer	1317					
		c. Stock With Guaranteed Payments	1320					
		d. Mutual Companies	1322					
		e. Rights Against Third Parties	1323					
	4.	Forward Contracts	1324					
	5.	Option Pairs	1328					
	6.	Life Insurance Policies	1330					
	7.	Rights Embedded in Commercial						
		Contracts	1330					
F.	Ru	les-Based Separation	1332					
	1.	General	1332					
	2.	Premium on Convertible Debt	1332					
	3.	CPDIs	1333					
	4.	Testing Offsets	1336					
	Э.	AHYDO Rules	1336					
	6.	Section 385	1337					
	7.		1338					
	8.	Gain Partially Characterized as Ordinary						
		Income	1338					
	9.	BEAT and MODA (Bifurcation of						
		Derivatives)	1339					
G.		tional Principal Contracts	1341					
H.	Ag	gregation and Separation of Entities	1344					
	1.	Stapled Stock	1344					
	2.	REMICs	1349					
	3.	5 0	1349 1351					
	4.							
	5.	Segregated Portfolio Companies	1352					

	(6. Separating Assets From Entities	1352
	I	Acquired Business Intangibles	1352
Chapter 17	A. I B. J	cial Topics Introduction Aggressive Tax Planning, Reportable Transactions, and Written Advice 1. Aggressive Tax Planning 2. Reportable Transactions 3. Written Advice	1357 1357 1357 1358 1362 1370
		Tax Strategy Patents	1372
		Securitization Reforms	1374
		 Overview Summary of Recommendations Changes Relating to Revolving Pool 	1374 1375
		Securitizations	1375
		b. Other Changes in REMIC	1270
		Regulations Changes Palating to TMPs	1378 1379
		c. Changes Relating to TMPsd. Foreign Trust Reporting	1379
Glossary			1381
Appendix A	State	e Tax Exemptions for REMICs	1441
Appendix B		e Sections, Regulations, and IRS Forms Vorth Knowing About	1443
Appendix C		Trade or Business Guidelines	1461
		Introduction	1461
		General Guidelines	1463
		Guidelines on Purchasing Loans	1465
	(Additional Guidelines Applicable to Synthetic Obligations	1469
		Additional Agreed Guidelines for Broadly Syndicated Loans	1471
Table of Cita	ation	s	1477
Index			1541