

IRS and Treasury Propose Revised Applicability Dates for Section 892 Rules on Foreign Government Investments

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Executive Summary

- **What’s new:** On May 29, 2026, the IRS and Treasury released new proposed regulations under Section 892, providing revised applicability dates for previously proposed rules from 2025 related to debt acquisitions and the “effective control” standard.
- **Why it matters:** The revised applicability dates are intended to ensure that existing investments of foreign governments, as well as investments acquired during a transition period, will not be subject to the more stringent standards in the 2025 proposed rules.
- **What to do next:** Foreign governments with existing or committed investments should consider evaluating whether their holdings qualify for the new transition rules and take note of certain statements in the preamble to these new proposed rules regarding the substance of the 2025 proposed rules.

On May 29, 2026, the Internal Revenue Service (IRS) and Department of the Treasury released new proposed regulations under Section 892. These new proposed rules provide revised applicability dates for the Section 892 rules previously proposed in December 2025 related to debt acquisitions and the “effective control” standard (the 2025 proposed rules).

These new proposed applicability dates are intended to ensure that existing investments of foreign governments, as well as investments acquired during a transition period, will **not** be subject to the more stringent standards in the 2025 proposed rules.

Although these new proposed rules would only revise those applicability dates (and not any other aspect of the 2025 proposed rules), the preamble to these new rules also provides certain helpful statements on the substance of the prior proposal.

Revised Applicability Dates

These new proposed rules would revise proposed Treasury Regulation Sections 1.892-4(d) and 1.892-5(e), which provided that the 2025 proposed rules would apply to taxable years beginning on or after the date the 2025 proposed rules are finalized.

Now, under revised proposed Treasury Regulation Sections 1.892-4(d) and 1.892-5(e), these rules would instead begin to apply, if finalized, only on or after the later of: (i) the start of the first taxable year beginning on or after finalization; or (ii) 90 days after finalization.

Crucially, the revised applicability dates would provide new transition rules for existing or committed investments. In particular:

- **Transition rule:** The 2025 proposed rules on the acquisition of debt and the “effective control” standard would not apply to any debt or interests either: (i) acquired before the new applicability date; or (ii) acquired later, but pursuant to a binding commitment entered into before that date.

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- **New controlling interests:** For interests subject to the transition rule, the new “effective control” standard would still not apply, even if the foreign government later acquired additional interests in the entity not eligible for the transition rule, unless the foreign government acquired “new controlling interests.” Additional investment would constitute “new controlling interests” only if the foreign government’s additional investment in the entity — considered alone, and without factoring in the government’s existing, transition rule-eligible investment — would create “effective control” under the new rules.

Statements in the Preamble

Although the new proposed rules only modify the applicability dates, the preamble also includes helpful statements on the substance of the 2025 proposed rules. In particular, the preamble to this new proposal clarifies that “[b]ecause it is the acquisition of debt, and not the mere holding of debt, that is potentially treated as commercial activity for purposes of Section 892, a

debt acquirer is not engaged in commercial activity in taxable years following the taxable year of the acquisition of the debt solely by reason of holding the debt in the subsequent taxable years.”

Accordingly, “a debt that was acquired in a previous year and held in the current year does not cause other debt acquisitions in the current year to be treated as commercial activity.” This clarification of the government’s view on this point is a welcome one.

Further, the preamble indicates that the overall substance of the 2025 proposed rules is still being evaluated to “tak[e] into account established market practices and the general policy to support current and future sovereign wealth fund investment in the United States.”

This statement echoes Treasury Secretary Scott Bessent’s previous response to concerns regarding the scope of the 2025 proposed rules. Thus, the government continues to telegraph that the 2025 proposed rules — criticized by many as overly stringent — will be pared back.