To Our Clients and Friends: **January 4, 2013**

American Taxpayer Relief Act of 2012: International Tax Provisions

On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012 (the "Act"). The Act contains several important international tax provisions of which you should be aware. These provisions are described below.

Preservation and Modification of Qualified Dividend Rules

Section 102 of the Act makes permanent the provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003 that permit qualified dividend income, including certain dividends from "qualified foreign corporations," to be taxed at the same favorable rates applicable to net capital gains. However, section 102 of the Act also increases the maximum tax rate on net capital gains and qualified dividend income to 20%. Depending upon the taxpayer's particular circumstances, net capital gain and qualified dividend income may also be subject to the new 3.8% "Medicare tax" imposed on certain net investment income pursuant to section 1411 of the Internal Revenue Code.

Extension of Favorable Treatment for Foreign Investors in Certain Regulated Investment Compnies

Section 320 of the Act extends an exemption from dividend withholding tax for certain "interest-related dividends" and "short-term capital gain dividends" paid by regulated investment companies (mutual funds) to foreign investors. The withholding tax exemption (which had expired for taxable years of regulated investment companies beginning after December 31, 2011) will remain in force for taxable years of regulated investment companies beginning on or before December 31, 2013.

Extension of Subpart F Exception for Active Financing Income

Section 322 of the Act extends an exemption from Subpart F for certain income earned by a controlled foreign corporation (CFC) in the active conduct of a banking, financing, or similar business. The exception (which had expired for taxable years of CFCs beginning after December 31, 2011) will remain in force for taxable years of CFCs beginning before January 1, 2014, and taxable years of United States shareholders ending with or within such CFC taxable years.

Extension of Subpart F "Look-Through" Treatment for Certain Payments Between Related CFCs

Section 323 of the Act extends a favorable "look-through" rule that permits dividends, interest, rents, and royalties received or accrued from a related CFC to be treated as non-Subpart F income if, among other requirements, such amounts are attributable to non-Subpart F income of the related CFC. The look-through rule (which had expired for taxable years of CFCs beginning after December 31, 2011) will remain in force for taxable years of CFCs beginning before January 1, 2014, and taxable years of United States shareholders ending with or within such CFC taxable years.

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