

MEMO# 32554

June 24, 2020

IRS Finalizes Regulations Permitting RICs to Pass Through Deduction for Qualified REIT Dividends

[32554]

June 24, 2020 TO: ICI Members

Tax Committee SUBJECTS: Tax RE: IRS Finalizes Regulations Permitting RICs to Pass Through Deduction for Qualified REIT Dividends

The Internal Revenue Service (IRS) and the Treasury Department have finalized [regulations](#) permitting regulated investment companies (RICs) to pass through to shareholders “qualified real estate investment trust (REIT) dividends” received by the RIC, allowing eligible shareholders to take advantage of the 20 percent deduction permitted under section 199A. The final regulations adopt without substantive changes the regulations that were proposed in 2019.[\[1\]](#)

The final regulations apply to taxable years beginning after August 24, 2020 (60 days after publication of the final regulations in the *Federal Register*), though taxpayers may choose to apply the final regulations to taxable years beginning on or before such date. Taxpayers who chose to rely upon the 2019 proposed regulations for taxable years beginning on or before August 24, 2020, may continue to do so for such years, provided the rules are applied consistently.

The preamble to the final regulations notes that the IRS and Treasury Department continue to evaluate whether it is appropriate to provide pass-through treatment to RIC shareholders for “qualified publicly traded partnership (PTP) income” received by a RIC under section 199A. The government also is considering whether business development companies that conduct lending activities should be permitted to pay “qualified business income (QBI) dividends” to shareholders in cases in which the RIC had income from an activity that would have generated QBI if conducted by a partnership or an S corporation.

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endnotes

[1] See Institute Memorandum No. 3156, dated January 18, 2019, *available at* https://www.ici.org/my_ici/memorandum/memo31569.

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