Will Treasury's new rules stop the wave of corporate tax inversions? No they won't. Treasury Secretary Jack Lew acknowledged as much when the agency proposed the curbs yesterday. Will they slow the practice? Perhaps, but even that is not certain.

In a perverse way, Treasury's most effective weapon may have been ambiguity. Once the Administration announced in August that it would take undefined regulatory action against these deals, almost all pending transactions stopped (with the exception of the Burger King-Tim Horton's union). Privately, tax lawyers told me they would have to wait to see what Treasury would do before moving ahead.

Now the dealmakers have the roadmap they need to keep their inversions Kosher. And with that guidance, it is likely that lawyers will attempt to restructure many transactions to satisfy the new rules.

The Treasury restrictions appear fairly modest, both economically and legally. They will limit some tax benefits of some deals but preserve a major source of tax juice in many transactions: The practice known as earnings stripping where an inverted firm treats certain intra-company loans as debt. The technique provides an infusion of capital for the U.S. unit while the interest it pays on those loans is deductible against U.S. taxable income.

By delaying anti-earnings stripping rules, Treasury also seemed to tread carefully on the question of its legal authority. Some tax lawyers say that while Treasury has regulatory power to define debt and equity, it cannot limit interest deductions for only certain

transactions.

Others, including my TPC colleague Steve Rosenthal and Harvard law professor Steve Shay, argue that the agency has broad power to curb inversions by defining those obligations as equity and not debt, thus limiting the ability of inverted firms to engage in earnings-stripping. Rather than test that theory now, Treasury lawyers cautiously relied on narrower authority to go after other tax-avoidance techniques.

However, Treasury did hold out the threat that it would go after earnings-stripping in the future. It announced it is considering curbs on that practice and that they could be imposed retroactive to Sept. 22. As a result, it may be difficult for a firm to calculate its after-tax return on an inversion without knowing whether it will be able to take advantage of earnings-stripping in the future.

The rules Treasury did announce are extremely complex (as are the transactions they are trying to slow). They attempt to both block inversions before they happen and reduce the economic benefits of the transactions after they occur.

The first set of regulations aims to tighten corporate ownership rules. Remember, in a typical inversion, a new foreign parent is created to acquire both a smaller foreign company and a larger U.S. firm. However, no more than 80 percent of the new company can be owned by the acquired U.S. business. Otherwise, the new foreign parent would be subject to U.S. tax law.

Treasury could not change that threshold, though Congress

could (and bills have been introduced to do so). However, Treasury did block several techniques firms have used to manipulate the ownership test. For instance, the U.S. firm can no longer reduce its value by paying shareholders a big dividend in advance of a deal. Similarly, the new foreign parent can no longer inflate its size by counting passive assets not used in its regular business.

Treasury also attempted to stop several common post-inversion techniques firms use to avoid paying tax when they bring back to the U.S. pre-merger foreign profits that are sitting in overseas affiliates. For instance, the new rules aim to block a practice known as "hopscotching" where an old foreign subsidiary lends money to the new foreign parent which in turn either distributes the proceeds to U.S. shareholders or invests in the U.S., bypassing the U.S. firm. This allows the funds to come to the U.S. tax-free.

Treasury officials readily acknowledge that anti-inversion regulations are no more than a third best option against these tax avoidance strategies. They'd prefer broad-based business tax reform or even congressional curbs on inversions themselves. But with neither close sat hand, Treasury reluctantly used its regulatory power to move against the practice.

Will the new rules stop or even slow inversions? Or will they show tax lawyers which doors Treasury has left open? We'll know soon enough. Just watch the news wires to see if those pending deals–or any new ones– actually happen.