

income, loss, deduction, or credit taken into account prior to Nov. 5, 1990, for purposes of determining liability for tax for periods ending after Nov. 5, 1990, see section 11821(b) of Pub. L. 101-508, set out as a note under section 45K of this title.

CLARIFICATION OF TREATMENT OF AMOUNTS EXCLUDED  
UNDER SECTION 597

Pub. L. 99-514, title IX, §904(c)(2)(B), Oct. 22, 1986, 100 Stat. 2385, provided that this section shall not deny any deduction by reason of such deduction being allocable to amounts excluded from gross income under section 597 of this title as in effect on Oct. 21, 1986, prior to repeal by Pub. L. 101-73, title XIV, §1401(a)(3)(B), Aug. 9, 1989, 103 Stat. 549.

**§ 266. Carrying charges**

No deduction shall be allowed for amounts paid or accrued for such taxes and carrying charges as, under regulations prescribed by the Secretary, are chargeable to capital account with respect to property, if the taxpayer elects, in accordance with such regulations, to treat such taxes or charges as so chargeable.

(Aug. 16, 1954, ch. 736, 68A Stat. 78; Pub. L. 94-455, title XIX, §1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1834.)

**Editorial Notes**

AMENDMENTS

1976—Pub. L. 94-455 struck out “or his delegate” after “Secretary”.

**§ 267. Losses, expenses, and interest with respect to transactions between related taxpayers**

**(a) In general**

**(1) Deduction for losses disallowed**

No deduction shall be allowed in respect of any loss from the sale or exchange of property, directly or indirectly, between persons specified in any of the paragraphs of subsection (b). The preceding sentence shall not apply to any loss of the distributing corporation (or the distributee) in the case of a distribution in complete liquidation.

**(2) Matching of deduction and payee income item in the case of expenses and interest**

If—

(A) by reason of the method of accounting of the person to whom the payment is to be made, the amount thereof is not (unless paid) includible in the gross income of such person, and

(B) at the close of the taxable year of the taxpayer for which (but for this paragraph) the amount would be deductible under this chapter, both the taxpayer and the person to whom the payment is to be made are persons specified in any of the paragraphs of subsection (b),

then any deduction allowable under this chapter in respect of such amount shall be allowable as of the day as of which such amount is includible in the gross income of the person to whom the payment is made (or, if later, as of the day on which it would be so allowable but for this paragraph). For purposes of this paragraph, in the case of a personal service corporation (within the meaning of section

441(i)(2)), such corporation and any employee-owner (within the meaning of section 269A(b)(2), as modified by section 441(i)(2)) shall be treated as persons specified in subsection (b).

**(3) Payments to foreign persons**

**(A) In general**

The Secretary shall by regulations apply the matching principle of paragraph (2) in cases in which the person to whom the payment is to be made is not a United States person.

**(B) Special rule for certain foreign entities**

**(i) In general**

Notwithstanding subparagraph (A), in the case of any item payable to a controlled foreign corporation (as defined in section 957) or a passive foreign investment company (as defined in section 1297), a deduction shall be allowable to the payor with respect to such amount for any taxable year before the taxable year in which paid only to the extent that an amount attributable to such item is includible (determined without regard to properly allocable deductions and qualified deficits under section 952(c)(1)(B)) during such prior taxable year in the gross income of a United States person who owns (within the meaning of section 958(a)) stock in such corporation.

**(ii) Secretarial authority**

The Secretary may by regulation exempt transactions from the application of clause (i), including any transaction which is entered into by a payor in the ordinary course of a trade or business in which the payor is predominantly engaged and in which the payment of the accrued amounts occurs within 8½ months after accrual or within such other period as the Secretary may prescribe.

**(b) Relationships**

The persons referred to in subsection (a) are:

(1) Members of a family, as defined in subsection (c)(4);

(2) An individual and a corporation more than 50 percent in value of the outstanding stock of which is owned, directly or indirectly, by or for such individual;

(3) Two corporations which are members of the same controlled group (as defined in subsection (f));

(4) A grantor and a fiduciary of any trust;

(5) A fiduciary of a trust and a fiduciary of another trust, if the same person is a grantor of both trusts;

(6) A fiduciary of a trust and a beneficiary of such trust;

(7) A fiduciary of a trust and a beneficiary of another trust, if the same person is a grantor of both trusts;

(8) A fiduciary of a trust and a corporation more than 50 percent in value of the outstanding stock of which is owned, directly or indirectly, by or for the trust or by or for a person who is a grantor of the trust;

(9) A person and an organization to which section 501 (relating to certain educational

and charitable organizations which are exempt from tax) applies and which is controlled directly or indirectly by such person or (if such person is an individual) by members of the family of such individual;

(10) A corporation and a partnership if the same persons own—

(A) more than 50 percent in value of the outstanding stock of the corporation, and

(B) more than 50 percent of the capital interest, or the profits interest, in the partnership;

(11) An S corporation and another S corporation if the same persons own more than 50 percent in value of the outstanding stock of each corporation;

(12) An S corporation and a C corporation, if the same persons own more than 50 percent in value of the outstanding stock of each corporation; or

(13) Except in the case of a sale or exchange in satisfaction of a pecuniary bequest, an executor of an estate and a beneficiary of such estate.

**(c) Constructive ownership of stock**

For purposes of determining, in applying subsection (b), the ownership of stock—

(1) Stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries;

(2) An individual shall be considered as owning the stock owned, directly or indirectly, by or for his family;

(3) An individual owning (otherwise than by the application of paragraph (2)) any stock in a corporation shall be considered as owning the stock owned, directly or indirectly, by or for his partner;

(4) The family of an individual shall include only his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants; and

(5) Stock constructively owned by a person by reason of the application of paragraph (1) shall, for the purpose of applying paragraph (1), (2), or (3), be treated as actually owned by such person, but stock constructively owned by an individual by reason of the application of paragraph (2) or (3) shall not be treated as owned by him for the purpose of again applying either of such paragraphs in order to make another the constructive owner of such stock.

**(d) Amount of gain where loss previously disallowed**

**(1) In general**

If—

(A) in the case of a sale or exchange of property to the taxpayer a loss sustained by the transferor is not allowable to the transferor as a deduction by reason of subsection (a)(1), and

(B) the taxpayer sells or otherwise disposes of such property (or of other property the basis of which in the taxpayer's hands is determined directly or indirectly by reference to such property) at a gain,

then such gain shall be recognized only to the extent that it exceeds so much of such loss as

is properly allocable to the property sold or otherwise disposed of by the taxpayer.

**(2) Exception for wash sales**

Paragraph (1) shall not apply if the loss sustained by the transferor is not allowable to the transferor as a deduction by reason of section 1091 (relating to wash sales).

**(3) Exception for transfers from tax indifferent parties**

Paragraph (1) shall not apply to the extent any loss sustained by the transferor (if allowed) would not be taken into account in determining a tax imposed under section 1 or 11 or a tax computed as provided by either of such sections.

**(e) Special rules for pass-thru entities**

**(1) In general**

In the case of any amount paid or incurred by, to, or on behalf of, a pass-thru entity, for purposes of applying subsection (a)(2)—

(A) such entity,

(B) in the case of—

(i) a partnership, any person who owns (directly or indirectly) any capital interest or profits interest of such partnership, or

(ii) an S corporation, any person who owns (directly or indirectly) any of the stock of such corporation,

(C) any person who owns (directly or indirectly) any capital interest or profits interest of a partnership in which such entity owns (directly or indirectly) any capital interest or profits interest, and

(D) any person related (within the meaning of subsection (b) of this section or section 707(b)(1)) to a person described in subparagraph (B) or (C),

shall be treated as persons specified in a paragraph of subsection (b). Subparagraph (C) shall apply to a transaction only if such transaction is related either to the operations of the partnership described in such subparagraph or to an interest in such partnership.

**(2) Pass-thru entity**

For purposes of this section, the term “pass-thru entity” means—

(A) a partnership, and

(B) an S corporation.

**(3) Constructive ownership in the case of partnerships**

For purposes of determining ownership of a capital interest or profits interest of a partnership, the principles of subsection (c) shall apply, except that—

(A) paragraph (3) of subsection (c) shall not apply, and

(B) interests owned (directly or indirectly) by or for a C corporation shall be considered as owned by or for any shareholder only if such shareholder owns (directly or indirectly) 5 percent or more in value of the stock of such corporation.

**(4) Subsection (a)(2) not to apply to certain guaranteed payments of partnerships**

In the case of any amount paid or incurred by a partnership, subsection (a)(2) shall not

apply to the extent that section 707(c) applies to such amount.

**(5) Exception for certain expenses and interest of partnerships owning low-income housing**

**(A) In general**

This subsection shall not apply with respect to qualified expenses and interest paid or incurred by a partnership owning low-income housing to—

- (i) any qualified 5-percent or less partner of such partnership, or
- (ii) any person related (within the meaning of subsection (b) of this section or section 707(b)(1)) to any qualified 5-percent or less partner of such partnership.

**(B) Qualified 5-percent or less partner**

For purposes of this paragraph, the term “qualified 5-percent or less partner” means any partner who has (directly or indirectly) an interest of 5 percent or less in the aggregate capital and profits interests of the partnership but only if—

- (i) such partner owned the low-income housing at all times during the 2-year period ending on the date such housing was transferred to the partnership, or
- (ii) such partnership acquired the low-income housing pursuant to a purchase, assignment, or other transfer from the Department of Housing and Urban Development or any State or local housing authority.

For purposes of the preceding sentence, a partner shall be treated as holding any interest in the partnership which is held (directly or indirectly) by any person related (within the meaning of subsection (b) of this section or section 707(b)(1)) to such partner.

**(C) Qualified expenses and interest**

For purpose of this paragraph, the term “qualified expenses and interest” means any expense or interest incurred by the partnership with respect to low-income housing held by the partnership but—

- (i) only if the amount of such expense or interest (as the case may be) is unconditionally required to be paid by the partnership not later than 10 years after the date such amount was incurred, and
- (ii) in the case of such interest, only if such interest is incurred at an annual rate not in excess of 12 percent.

**(D) Low-income housing**

For purposes of this paragraph, the term “low-income housing” means—

- (i) any interest in property described in clause (i), (ii), (iii), or (iv) of section 1250(a)(1)(B), and
- (ii) any interest in a partnership owning such property.

**(6) Cross reference**

For additional rules relating to partnerships, see section 707(b).

**(f) Controlled group defined; special rules applicable to controlled groups**

**(1) Controlled group defined**

For purposes of this section, the term “controlled group” has the meaning given to such term by section 1563(a), except that—

- (A) “more than 50 percent” shall be substituted for “at least 80 percent” each place it appears in section 1563(a), and
- (B) the determination shall be made without regard to subsections (a)(4) and (e)(3)(C) of section 1563.

**(2) Deferral (rather than denial) of loss from sale or exchange between members**

In the case of any loss from the sale or exchange of property which is between members of the same controlled group and to which subsection (a)(1) applies (determined without regard to this paragraph but with regard to paragraph (3))—

- (A) subsections (a)(1) and (d) shall not apply to such loss, but
- (B) such loss shall be deferred until the property is transferred outside such controlled group and there would be recognition of loss under consolidated return principles or until such other time as may be prescribed in regulations.

**(3) Loss deferral rules not to apply in certain cases**

**(A) Transfer to DISC**

For purposes of applying subsection (a)(1), the term “controlled group” shall not include a DISC.

**(B) Certain sales of inventory**

Except to the extent provided in regulations prescribed by the Secretary, subsection (a)(1) shall not apply to the sale or exchange of property between members of the same controlled group (or persons described in subsection (b)(10)) if—

- (i) such property in the hands of the transferor is property described in section 1221(a)(1),
- (ii) such sale or exchange is in the ordinary course of the transferor’s trade or business,
- (iii) such property in the hands of the transferee is property described in section 1221(a)(1), and
- (iv) the transferee or the transferor is a foreign corporation.

**(C) Certain foreign currency losses**

To the extent provided in regulations, subsection (a)(1) shall not apply to any loss sustained by a member of a controlled group on the repayment of a loan made to another member of such group if such loan is payable in a foreign currency or is denominated in such a currency and such loss is attributable to a reduction in value of such foreign currency.

**(D) Redemptions by fund-of-funds regulated investment companies**

Except to the extent provided in regulations prescribed by the Secretary, subsection (a)(1) shall not apply to any distribu-

tion in redemption of stock of a regulated investment company if—

(i) such company issues only stock which is redeemable upon the demand of the stockholder, and

(ii) such redemption is upon the demand of another regulated investment company.

**(4) Determination of relationship resulting in disallowance of loss, for purposes of other provisions**

For purposes of any other section of this title which refers to a relationship which would result in a disallowance of losses under this section, deferral under paragraph (2) shall be treated as disallowance.

**(g) Coordination with section 1041**

Subsection (a)(1) shall not apply to any transfer described in section 1041(a) (relating to transfers of property between spouses or incident to divorce).

(Aug. 16, 1954, ch. 736, 68A Stat. 78; Pub. L. 95-628, §2(a), Nov. 10, 1978, 92 Stat. 3627; Pub. L. 97-354, §3(h), Oct. 19, 1982, 96 Stat. 1689; Pub. L. 98-369, div. A, title I, §174(a)-(b)(4), title VII, §721(s), July 18, 1984, 98 Stat. 704-707, 970; Pub. L. 99-514, title VIII, §§803(b)(5), 806(c)(2), title XVIII, §§1812(c)(1), (2), (3)(C), (4)(A), 1842(a), Oct. 22, 1986, 100 Stat. 2356, 2364, 2834, 2835, 2852; Pub. L. 100-647, title I, §§1006(e)(9), 1008(e)(6), Nov. 10, 1988, 102 Stat. 3401, 3441; Pub. L. 105-34, title XIII, §1308(a), title XVI, §1604(e)(1), Aug. 5, 1997, 111 Stat. 1041, 1098; Pub. L. 106-170, title V, §532(c)(2)(C), Dec. 17, 1999, 113 Stat. 1930; Pub. L. 108-357, title VIII, §841(b), Oct. 22, 2004, 118 Stat. 1598; Pub. L. 111-325, title III, §306(b), Dec. 22, 2010, 124 Stat. 3549; Pub. L. 113-295, div. A, title II, §221(a)(44), Dec. 19, 2014, 128 Stat. 4044; Pub. L. 114-113, div. Q, title III, §345(a), Dec. 18, 2015, 129 Stat. 3115.)

**Editorial Notes**

**AMENDMENTS**

2015—Subsec. (d). Pub. L. 114-113 amended subsec. (d) generally. Prior to amendment, text read as follows: “If—

“(1) in the case of a sale or exchange of property to the taxpayer a loss sustained by the transferor is not allowable to the transferor as a deduction by reason of subsection (a)(1); and

“(2) the taxpayer sells or otherwise disposes of such property (or of other property the basis of which in his hands is determined directly or indirectly by reference to such property) at a gain,

then such gain shall be recognized only to the extent that it exceeds so much of such loss as is properly allocable to the property sold or otherwise disposed of by the taxpayer. This subsection shall not apply if the loss sustained by the transferor is not allowable to the transferor as a deduction by reason of section 1091 (relating to wash sales).”

2014—Subsec. (d). Pub. L. 113-295, in concluding provisions, struck out “This subsection applies with respect to taxable years ending after December 31, 1953.” after “by the taxpayer.” and “or by reason of section 118 of the Internal Revenue Code of 1939” after “sales”).”

Subsec. (d)(1). Pub. L. 113-295 struck out “(or by reason of section 24(b) of the Internal Revenue Code of 1939)” after “subsection (a)(1)”.

Subsec. (d)(2). Pub. L. 113-295 struck out “after December 31, 1953,” before “the taxpayer”.

2010—Subsec. (f)(3)(D). Pub. L. 111-325 added subpar. (D).

2004—Subsec. (a)(3). Pub. L. 108-357 designated existing provisions as subpar. (A), inserted heading, and added subpar. (B).

1999—Subsec. (f)(3)(B)(i), (iii). Pub. L. 106-170 substituted “1221(a)(1)” for “1221(1)”.

1997—Subsec. (b)(13). Pub. L. 105-34, §1308(a), added par. (13).

Subsec. (f)(4). Pub. L. 105-34, §1604(e)(1), added par. (4).

1988—Subsec. (a)(1). Pub. L. 100-647, §1006(e)(9), struck out “(other than a loss in case of a distribution in corporate liquidation)” after “exchange of property” and inserted at end “The preceding sentence shall not apply to any loss of the distributing corporation (or the distributee) in the case of a distribution in complete liquidation.”

Subsec. (a)(2). Pub. L. 100-647, §1008(e)(6), made technical correction to directory language of Pub. L. 99-514, §806(c)(2), see 1986 Amendment note below.

1986—Subsec. (a)(2). Pub. L. 99-514, §806(c)(2), as amended by Pub. L. 100-647, §1008(e)(6), inserted at end “For purposes of this paragraph, in the case of a personal service corporation (within the meaning of section 441(i)(2)), such corporation and any employee-owner (within the meaning of section 269A(b)(2), as modified by section 441(i)(2)) shall be treated as persons specified in subsection (b).”

Subsec. (a)(3). Pub. L. 99-514, §1812(c)(1), added par. (3).

Subsec. (b)(12). Pub. L. 99-514, §1812(c)(4)(A), substituted “same persons own” for “same persons owns”.

Subsec. (e)(5)(D). Pub. L. 99-514, §803(b)(5), substituted in cl. (i) “interest in property described in clause (i), (ii), (iii), or (iv) of section 1250(a)(1)(B)” for “interest in low-income housing (as defined in paragraph (5) of section 189(e))” and in cl. (ii) “such property” for “low-income housing (as so defined)”.

Subsec. (e)(6). Pub. L. 99-514, §1812(c)(3)(C), added par. (6).

Subsec. (f)(3)(B). Pub. L. 99-514, §1812(c)(2), inserted “(or persons described in subsection (b)(10))”.

Subsec. (g). Pub. L. 99-514, §1842(a), added subsec. (g).

1984—Subsec. (a). Pub. L. 98-369, §174(a), amended subsec. (a) generally, substituting “In general” for “Deduction disallowed” in heading, “Deduction for losses disallowed” for “Losses” in par. (1) heading, and provisions dealing with matching of deduction and payee income item in the case of expenses and interest for provisions dealing with unpaid expenses and interest in par. (2).

Subsec. (b)(3). Pub. L. 98-369, §174(b)(2)(A), substituted “Two corporations which are members of the same controlled group (as defined in subsection (f))” for “Two corporations more than 50 percent in value of the outstanding stock of each of which is owned, directly or indirectly, by or for the same individual, if either one of such corporations, with respect to the taxable year of the corporation preceding the date of the sale or exchange was, under the law applicable to such taxable year, a personal holding company or a foreign personal holding company”.

Subsec. (b)(10). Pub. L. 98-369, §174(b)(3), substituted “A corporation” for “An S corporation” in introductory provisions and “the corporation” for “the S corporation” in subpar. (A).

Subsec. (b)(12). Pub. L. 98-369, §174(b)(4), substituted “the same persons” for “the same individual”.

Subsec. (e). Pub. L. 98-369, §174(b)(1), added subsec. (e).

Pub. L. 98-369, §174(a)(2), struck out subsec. (e) which provided that for purposes of subsection (a)(2) where the last day of the 2½ month period falls on Saturday, Sunday, or a legal holiday, such last day be treated as falling on the next succeeding day which is not a Saturday, Sunday, or a legal holiday, and the determination of what constitutes a legal holiday be made under section 7503 with respect to the payor’s return of tax under this chapter for the preceding taxable year.

Subsec. (f). Pub. L. 98-369, §174(b)(2)(B), added subsec. (f).

Pub. L. 98-369, §174(b)(1), struck out subsec. (f) which related to special rules for unpaid expenses and interest

of S corporations and treatment under such provisions of certain shareholders, etc., as related persons.

Pub. L. 98-369, §721(s), in closing provision of par. (1) substituted “then any deduction allowable under such sections in respect of such amount shall be allowable as of the day as of which such payment is includible in the gross income of the person to whom the payment is made (or, if later, as of the day on which it would be so allowable but for this paragraph)” for “then no deduction shall be allowed in respect of expenses otherwise deductible under section 162 or 212, or of interest otherwise deductible under section 163, before the day as of which the amount thereof is includible in the gross income of the person to whom the payment is made”.

1982—Subsec. (b)(10) to (12). Pub. L. 97-354, §3(h)(1), (3), added pars. (10) to (12).

Subsec. (f). Pub. L. 97-354, §3(h)(2), added subsec. (f).

1978—Subsec. (e). Pub. L. 95-628 added subsec. (e).

#### Statutory Notes and Related Subsidiaries

##### EFFECTIVE DATE OF 2015 AMENDMENT

Pub. L. 114-113, div. Q, title III, §345(b), Dec. 18, 2015, 129 Stat. 3115, provided that: “The amendment made by this section [amending this section] shall apply to sales and other dispositions of property acquired after December 31, 2015, by the taxpayer in a sale or exchange to which section 267(a)(1) of the Internal Revenue Code of 1986 applied.”

##### EFFECTIVE DATE OF 2014 AMENDMENT

Amendment by Pub. L. 113-295 effective Dec. 19, 2014, subject to a savings provision, see section 221(b) of Pub. L. 113-295, set out as a note under section 1 of this title.

##### EFFECTIVE DATE OF 2010 AMENDMENT

Pub. L. 111-325, title III, §306(c), Dec. 22, 2010, 124 Stat. 3550, provided that: “The amendments made by this section [amending this section and section 302 of this title] shall apply to distributions after the date of the enactment of this Act [Dec. 22, 2010].”

##### EFFECTIVE DATE OF 2004 AMENDMENT

Amendment by Pub. L. 108-357 applicable to payments accrued on or after Oct. 22, 2004, see section 841(c) of Pub. L. 108-357, set out as a note under section 163 of this title.

##### EFFECTIVE DATE OF 1999 AMENDMENT

Amendment by Pub. L. 106-170 applicable to any instrument held, acquired, or entered into, any transaction entered into, and supplies held or acquired on or after Dec. 17, 1999, see section 532(d) of Pub. L. 106-170, set out as a note under section 170 of this title.

##### EFFECTIVE DATE OF 1997 AMENDMENT

Pub. L. 105-34, title XIII, §1308(c), Aug. 5, 1997, 111 Stat. 1042, provided that: “The amendments made by this section [amending this section and section 1239 of this title] shall apply to taxable years beginning after the date of the enactment of this Act [Aug. 5, 1997].”

Pub. L. 105-34, title XVI, §1604(e)(2), Aug. 5, 1997, 111 Stat. 1098, provided that: “The amendment made by paragraph (1) [amending this section] shall take effect as if included in section 174(b) of the Tax Reform Act of 1984 [Pub. L. 98-369].”

##### EFFECTIVE DATE OF 1988 AMENDMENT

Amendment by Pub. L. 100-647 effective, except as otherwise provided, as if included in the provision of the Tax Reform Act of 1986, Pub. L. 99-514, to which such amendment relates, see section 1019(a) of Pub. L. 100-647, set out as a note under section 1 of this title.

##### EFFECTIVE DATE OF 1986 AMENDMENT

If any interest costs incurred after Dec. 31, 1986, are attributable to costs incurred before Jan. 1, 1987, the

amendment by section 803(b)(5) of Pub. L. 99-514 is applicable to such interest costs only to the extent such interest costs are attributable to costs which were required to be capitalized under section 263 of the Internal Revenue Code of 1954 and which would have been taken into account in applying section 189 of the Internal Revenue Code of 1954 (as in effect before its repeal by section 803 of Pub. L. 99-514) or, if applicable, section 266 of such Code, see section 7831(d)(2) of Pub. L. 101-239, set out as an Effective Date note under section 263A of this title.

Amendment by section 803(b)(5) of Pub. L. 99-514 applicable, except as otherwise provided, to costs incurred after Dec. 31, 1986, in taxable years ending after that date, see section 803(d) of Pub. L. 99-514, set out as a note under section 263A of this title.

Amendment by section 806(c)(2) of Pub. L. 99-514 applicable to taxable years beginning after Dec. 31, 1986, with special provisions applicable to taxpayers who are required to change their accounting periods, see section 806(e) of Pub. L. 99-514, set out as a note under section 1378 of this title.

Amendment by sections 1812(c)(1), (2), (3)(C), (4)(A) and 1842(a) of Pub. L. 99-514 effective, except as otherwise provided, as if included in the provisions of the Tax Reform Act of 1984, Pub. L. 98-369, div. A, to which such amendment relates, see section 1881 of Pub. L. 99-514, set out as a note under section 48 of this title.

##### EFFECTIVE DATE OF 1984 AMENDMENT

Pub. L. 98-369, div. A, title I, §174(c), July 18, 1984, 98 Stat. 707, as amended by Pub. L. 99-514, §2, Oct. 22, 1986, 100 Stat. 2095, provided that:

“(1) SUBSECTIONS (a) AND (b)(1).—The amendments made by subsections (a) and (b)(1) [amending this section] shall apply to amounts allowable as deductions under chapter 1 of the Internal Revenue Code of 1986 [formerly I.R.C. 1954] for taxable years beginning after December 31, 1983. For purposes of the preceding sentence, the allowability of a deduction shall be determined without regard to any disallowance or postponement of deductions under section 267 of such Code.

“(2) SUBSECTION (b) (OTHER THAN PARAGRAPH (1)).—

“(A) IN GENERAL.—Except as provided in subparagraph (B), the amendments made by subsection (b) (other than paragraph (1) thereof) [amending this section and sections 170, 368, 514, and 1235 of this title] shall apply to transactions after December 31, 1983, in taxable years ending after such date.

“(B) EXCEPTION FOR TRANSFERS TO FOREIGN CORPORATIONS ON OR BEFORE MARCH 1, 1984.—The amendments made by subsection (b)(2) [amending this section] shall not apply to property transferred to a foreign corporation on or before March 1, 1984.

“(3) EXCEPTION FOR EXISTING INDEBTEDNESS, ETC.—

“(A) IN GENERAL.—The amendments made by this section [amending this section and sections 170, 368, 514, and 1235 of this title] shall not apply to any amount paid or incurred—

“(i) on indebtedness incurred on or before September 29, 1983, or

“(ii) pursuant to a contract which was binding on September 29, 1983, and at all times thereafter before the amount is paid or incurred.

“(B) TREATMENT OF RENEGOTIATIONS, EXTENSIONS, ETC.—If any indebtedness (or contract described in subparagraph (A)) is renegotiated, extended, renewed, or revised after September 29, 1983, subparagraph (A) shall not apply to any amount paid or incurred on such indebtedness (or pursuant to such contract) after the date of such renegotiation, extension, renewal, or revision.”

Amendment by section 721(s) of Pub. L. 98-369 effective as if included in the Subchapter S Revision Act of 1982, Pub. L. 97-354, see section 721(y)(1) of Pub. L. 98-369, set out as a note under section 1361 of this title.

##### EFFECTIVE DATE OF 1982 AMENDMENT

Amendment by Pub. L. 97-354 applicable to taxable years beginning after Dec. 31, 1982, see section 6(a) of

Pub. L. 97-354, set out as an Effective Date note under section 1361 of this title.

EFFECTIVE DATE OF 1978 AMENDMENT

Pub. L. 95-628, §2(b), Nov. 10, 1978, 92 Stat. 3627, provided that: "The amendment made by subsection (a) [amending this section] shall apply with respect to payments made after the date of the enactment of this Act [Nov. 10, 1978]."

CONSTRUCTION OF SECTION 806 OF PUB. L. 99-514

Nothing in section 806 of Pub. L. 99-514 [amending this section] or in any legislative history relating thereto to be construed as requiring the Secretary of the Treasury or his delegate to permit an automatic change of a taxable year, see section 1008(e)(9) of Pub. L. 100-647, set out as a note under section 1378 of this title.

PLAN AMENDMENTS NOT REQUIRED UNTIL  
JANUARY 1, 1989

For provisions directing that if any amendments made by subtitle A or subtitle C of title XI [§§ 1101-1147 and 1171-1177] or title XVIII [§§ 1800-1899A] of Pub. L. 99-514 require an amendment to any plan, such plan amendment shall not be required to be made before the first plan year beginning on or after Jan. 1, 1989, see section 1140 of Pub. L. 99-514, as amended, set out as a note under section 401 of this title.

EXCEPTION FOR CERTAIN INDEBTEDNESS

Pub. L. 99-514, title XVIII, §1812(c)(5), Oct. 22, 1986, 100 Stat. 2835, provided that: "Clause (i) of section 174(c)(3)(A) of the Tax Reform Act of 1984 [section 174(c)(3)(A)(i) of Pub. L. 98-369, set out as a note above] shall be applied by substituting 'December 31, 1983' for 'September 29, 1983' in the case of indebtedness which matures on January 1, 1999, the payments on which from January 1989 through November 1993 equal U/L plus \$77,600, the payments on which from December 1993 to maturity equal U/L plus \$50,100, and which accrued interest at 13.75 percent through December 31, 1989."

**§ 267A. Certain related party amounts paid or accrued in hybrid transactions or with hybrid entities**

**(a) In general**

No deduction shall be allowed under this chapter for any disqualified related party amount paid or accrued pursuant to a hybrid transaction or by, or to, a hybrid entity.

**(b) Disqualified related party amount**

For purposes of this section—

**(1) Disqualified related party amount**

The term "disqualified related party amount" means any interest or royalty paid or accrued to a related party to the extent that—

(A) such amount is not included in the income of such related party under the tax law of the country of which such related party is a resident for tax purposes or is subject to tax, or

(B) such related party is allowed a deduction with respect to such amount under the tax law of such country.

Such term shall not include any payment to the extent such payment is included in the gross income of a United States shareholder under section 951(a).

**(2) Related party**

The term "related party" means a related person as defined in section 954(d)(3), except

that such section shall be applied with respect to the person making the payment described in paragraph (1) in lieu of the controlled foreign corporation otherwise referred to in such section.

**(c) Hybrid transaction**

For purposes of this section, the term "hybrid transaction" means any transaction, series of transactions, agreement, or instrument one or more payments with respect to which are treated as interest or royalties for purposes of this chapter and which are not so treated for purposes the tax law of the foreign country of which the recipient of such payment is resident for tax purposes or is subject to tax.

**(d) Hybrid entity**

For purposes of this section, the term "hybrid entity" means any entity which is either—

(1) treated as fiscally transparent for purposes of this chapter but not so treated for purposes of the tax law of the foreign country of which the entity is resident for tax purposes or is subject to tax, or

(2) treated as fiscally transparent for purposes of such tax law but not so treated for purposes of this chapter.

**(e) Regulations**

The Secretary shall issue such regulations or other guidance as may be necessary or appropriate to carry out the purposes of this section, including regulations or other guidance providing for—

(1) rules for treating certain conduit arrangements which involve a hybrid transaction or a hybrid entity as subject to subsection (a),

(2) rules for the application of this section to branches or domestic entities,

(3) rules for treating certain structured transactions as subject to subsection (a),

(4) rules for treating a tax preference as an exclusion from income for purposes of applying subsection (b)(1) if such tax preference has the effect of reducing the generally applicable statutory rate by 25 percent or more,

(5) rules for treating the entire amount of interest or royalty paid or accrued to a related party as a disqualified related party amount if such amount is subject to a participation exemption system or other system which provides for the exclusion or deduction of a substantial portion of such amount,

(6) rules for determining the tax residence of a foreign entity if the entity is otherwise considered a resident of more than one country or of no country,

(7) exceptions from subsection (a) with respect to—

(A) cases in which the disqualified related party amount is taxed under the laws of a foreign country other than the country of which the related party is a resident for tax purposes, and

(B) other cases which the Secretary determines do not present a risk of eroding the Federal tax base,<sup>1</sup>

(8) requirements for record keeping and information reporting in addition to any requirements imposed by section 6038A.

<sup>1</sup> So in original. Probably should be followed by "and".