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Instructions for Form 8926

(Rev. December 2018)

(Use with the December 2017 revision of Form 8926)

Disqualified Corporate Interest Expense Disallowed Under Section 163(j) and Related Information

Department of the Treasury
Internal Revenue Service

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments

For the latest information about developments related to Form 8926 and its instructions, such as legislation enacted after they were published, go to *IRS.gov/Form8926*.

What's New

Disqualified corporate interest expense. Public Law 115-97, repealed the disqualified corporate interest expense rules for tax years beginning after 2017. Form 8926 and its instructions will be obsolete for tax years beginning after December 31, 2017. For disqualified corporate interest expense disallowed under prior law for tax years beginning before January 1, 2018, and Business Interest Expense for tax years beginning January 1, 2018 and after, see Form 8990, Limitation on Business Interest Expense Under Section 163(j) and its instructions. See new section 163(j) for more information.

General Instructions

Purpose of Form

Corporations use Form 8926 to figure the amount of any corporate interest expense deduction disallowed by section 163(j). A corporation's interest expense deduction may be disallowed if it paid or accrued disqualified interest during the tax year. However, if at least one of the following statements is true, disqualified interest which the corporation has actually paid or accrued in the current tax year will not be disallowed by section 163(j).

- The corporation's debt-to-equity ratio at the end of the tax year does not exceed 1.5 to 1.
- The corporation does not have any excess interest expense for the tax year.

Corporations also use Form 8926 to figure the amount of any interest expense deduction disallowed by section 163(j) for a previous tax year that is allowed for the current tax year.

Who Must File

A corporation (other than an S corporation) must complete and file Form 8926 if it paid or accrued disqualified interest during the current tax year or had a carryforward of disqualified interest from a previous tax year. A corporation must complete and file Form 8926 even if it meets the debt-to-equity safe harbor of section 163(j)(2)(A)(ii).

Disqualified Interest

Disqualified interest is:

- Interest paid or accrued (directly or indirectly) to a related person not subject to U.S. income tax on the interest,
- Interest paid or accrued on indebtedness held by an unrelated person if there is a disqualified guarantee of the indebtedness and the interest is not subject to a U.S. gross basis income tax (a tax figured on the gross amount of an item of income without reduction for any allowed deduction), and
- Interest paid or accrued (directly or indirectly) to a taxable real estate investment trust (as defined in section 856(l)) by a subsidiary of the trust.

Also, any disqualified interest disallowed as a deduction by section 163(j) in a tax year is carried forward and treated as disqualified interest paid or accrued in the next tax year.

Related Person

A related person is a person who is related to the corporation under sections 267(b) or 707(b)(1). For this purpose, the attribution rules of section 267(c) apply. In determining whether persons are related, the substance of ownership, rather than its form, controls.

You determine relatedness as of the date on which an item of interest expense accrues. Consequently, changes in the relationship between the payor corporation and the payee after the accrual date are irrelevant.

Partnerships. A partnership is not a related person if less than 10% of the profits and capital interest in the partnership are held by partners not subject to U.S. income tax on the interest. However, the partners may be related persons.

If a treaty between the United States and a foreign country reduces the rate of income tax imposed on a partner's share of any interest paid or accrued to a partnership, that partner's interests in the partnership are treated as held in part by a person subject to and in part by a person not subject to U.S. income tax on the interest.

In this situation, figure the interest treated as held by a partner not subject to U.S. income tax by multiplying the interest by:

- The rate of tax imposed without regard to the treaty, reduced by the rate of tax imposed by the treaty, divided by
- The rate of tax imposed without regard to the treaty.

Pass-Through Entities

In the case of any interest paid or accrued to a partnership, the determination of whether any tax is subject to U.S. income tax is made at the partner level. A similar rule applies in the case of other pass-through entities and in the case of tiered partnerships and other entities.

Treaties

If a treaty between the United States and a foreign country reduces the rate of income tax imposed on the interest paid or accrued to a person, the interest is treated as paid or accrued in part to a person subject to and in part to a person not subject to U.S. income tax on the interest.

In this situation, figure the interest treated as paid or accrued to a person not subject to U.S. income tax on the interest by multiplying the interest by:

- The rate of tax imposed without regard to the treaty, reduced by the rate of tax imposed by the treaty, divided by
- The rate of tax imposed without regard to the treaty.

Disqualified Guarantee

A guarantee includes any arrangement under which a person (directly or indirectly through an entity or otherwise) assures, on a conditional or unconditional basis, the payment of another person's obligation under any indebtedness.

A disqualified guarantee is generally a guarantee by a related person that is a tax-exempt organization or a foreign person, unless the corporation owns a controlling interest in the tax-exempt organization or foreign person.

For this purpose, a controlling interest is direct or indirect ownership of at least 80% of the total voting power and value of all classes of stock of a corporation, or 80% of the profit and capital interests in any other entity. For this purpose, the rules of paragraphs (1) and (5) of section 267(c) apply to both corporations and entities other than corporations.

Affiliated Groups

All members of an affiliated group (described in section 1504(a)) are treated as one corporation.

Ratio of Debt to Equity

A corporation's ratio of debt to equity is the ratio of the total indebtedness that the corporation bears to the sum of its money and the adjusted basis of all other assets reduced (but not below zero) by the total indebtedness. For this purpose, use the adjusted basis that would be used to determine gain. Also, for indebtedness with original issue discount (OID), use its issue price plus the portion of the OID previously accrued as determined under the rules of section 1272 (determined without regard to section 1272(a)(7) or (b)(4)).

Indebtedness. Debt is determined in accordance with generally applicable tax principles. Thus, in general, a contingent liability for financial accounting purposes that has not accrued for tax purposes will not be treated as a liability for purposes of section 163(j).

Net Interest Expense

A corporation's net interest expense is the excess (if any) of:

- The interest paid or accrued by the corporation during the tax year, over
- The interest includible in the gross income of the corporation for the tax year.

Excess Interest Expense

A corporation's excess interest expense is the excess (if any) of:

- The corporation's net interest expense, over
- The sum of 50% of the adjusted taxable income of the corporation plus any excess limitation carryforward.

A corporation's excess limitation is the excess (if any) of:

- 50% of the adjusted taxable income of the corporation, over
- The corporation's net interest expense.

Any excess limitation in a tax year is treated as an excess limitation carryforward to the first following tax year and, if unused in that tax year, similarly carried forward to the second and third following tax years. However, the carryforward that can be used in each of the following tax years cannot exceed the excess interest expense for that tax year (figured without the use of any excess limitation carryforward).

Corporate Partners

If a corporation owns (directly or indirectly) an interest in a partnership, the following rules apply.

- The corporation's distributive share of interest income paid or accrued to the partnership is treated as interest income paid or accrued to the corporation.
- The corporation's distributive share of interest paid or accrued by the partnership is treated as interest paid or accrued by the corporation.
- The corporation's share of the liabilities of the partnership is treated as liabilities of the corporation.

Passive Activity and At-Risk Rules

Section 163(j) is applied before the passive activity and at-risk rules.

Other Interest Limitations

Other sections limiting the deductibility of interest, such as sections 267(a)(3) and 163(e)(3), apply before section 163(j).

Specific Instructions

Affiliated Group Checkbox

A single form must be filed for all members of an affiliated group as defined in section 163(j)(6)(C), including those that are not members of the same consolidated group.

Line 1d

Enter the total amount of the corporation's indebtedness as of the last day of the tax year. Enter all indebtedness owed to related parties and all indebtedness owed to third parties. For more information, see Ratio of Debt to Equity, earlier.

Line 1f. Debt-to-Equity Ratio

Divide line 1d by line 1e.

Divide the total amount of the corporation's indebtedness as of the last day of the tax year by the sum of money and adjusted basis of all the corporation's other assets reduced by the total indebtedness.

Enter the results as a decimal (rounded to five decimal places).

Example 1. Corporation A is a calendar year corporation. At the end of 2017, Corporation A's money totaled $300,500. The adjusted basis of the corporation's other assets totaled $574,500. Corporation A's total indebtedness at the end of 2017 is $525,000. The debt-to-equity ratio for Corporation A is 1.50000.

Example 1:

Money	$300,500
Plus: Adjusted basis of all other assets	574,500
Total	$875,000
Minus: Total indebtedness	525,000
Corporation A's equity	$350,000

Calculation of Corporation A's debt-to-equity ratio:

Corporation A's total indebtedness	$525,000
Divided by: Corporation A's equity	350,000
Corporation A's debt-to-equity ratio (Form 8926, line 1f)	**1.50000**

Note. Since the debt-to-equity ratio does not exceed 1.5 to 1, disqualified interest paid or accrued in the current tax year will not be disallowed by section 163(j).

Example 2. Corporation B is a calendar year corporation. At the end of 2017, Corporation B's money totaled $400,000. The adjusted basis of the corporation's other assets totaled $599,950. Corporation B's total indebtedness at the end of 2017 is

$600,020. The debt-to-equity ratio for Corporation B is 1.50031.

Example 2:

Money	$400,000
Plus: Adjusted basis of all other assets	599,950
Total	$999,950
Minus: Total indebtedness	600,020
Corporation B's equity	$399,930

Calculation of Corporation B's debt-to-equity ratio:	
Corporation B's total indebtedness	$600,020
Divided by: Corporation B's equity	399,930
Corporation B's debt-to-equity ratio (Form 8926, line 1f)	**1.50031**

Note. Since the debt-to-equity ratio exceeds 1.5 to 1, disqualified interest paid or accrued in the current tax year will be disallowed by section 163(j) to the extent of the corporation's excess interest expense for the tax year.

Line 1i

Enter all assets that are directly owned by the corporation, including assets held through a partnership or trust.

Note. Partnerships and simple trusts are treated as aggregates.

Line 2a

Interest paid or accrued by the corporation for the tax year includes any disqualified interest disallowed under section 163(j) in a previous year which has been carried forward to the current tax year.

Line 3b

Include only the allowable net interest expense on line 3b to determine adjusted taxable income. Do not include the following interest on line 3b, unless such amounts were deducted in determining taxable income on line 3a.

1. Any interest that the corporation paid or accrued but was not allowed to claim as an interest expense deduction under another code section.

2. Any disqualified interest disallowed under section 163(j) in a previous year which has been carried forward to the current tax year.

Line 3f

Enter any additional adjustments the corporation has made to its taxable income (loss) in arriving at its adjusted taxable income under section 163(j)(6).

Attach to your return a separate sheet showing:

- A list of each adjustment item and the amount for each adjustment item, and
- The total of all adjustments at the bottom.

Enter the total of all adjustments on line 3f.

Line 4b

Enter the amount of any unused excess limitation carried forward (if any) from the corporation's first preceding tax year and, to the extent not previously taken into account in a prior tax year, the second and third preceding tax years.

Lines 5a through 5c.

The amount of interest entered on line 5a, 5b, or 5c is the disqualified interest that was actually paid, deemed paid, or accrued in the current tax year. The amounts entered on line 5a, 5b, or 5c, however, should not include any disqualified interest that was paid or accrued in a prior tax year and carried forward to the current tax year.

Line 7. Interest Deduction Disallowed Under Section 163(j) and Carried Forward to the Next Tax Year

The amount entered on line 7 is the amount of the corporation's interest deduction that is disallowed under section 163(j) and carried forward to the next tax year. If the debt-to-equity ratio on line 1f is 1.5 or less, enter the smaller of the excess interest expense from line 4d or the disqualified interest disallowed under section 163(j) from prior years from line 5e. If the debt-to-equity ratio on line 1f is greater than 1.5, enter the smaller of the excess interest expense from line 4d or the total disqualified interest from line 5f. Any interest expense disallowed under section 163(j) should not be included as a deduction in the current tax year.

The corporation may be allowed by section 163(j) to deduct the disallowed amount in a subsequent year. If not, it can be carried forward indefinitely.

Line 8c. Excess Limitation Carryforward to the Next Tax Year

If the corporation has an excess limitation for any taxable year, the amount of such excess limitation shall be an excess limitation carryforward to the first succeeding tax year and to the second and third succeeding tax years to the extent not previously taken into account in a prior tax year.

Add lines 8a and 8b. This is your excess limitation carryforward to your next tax year. Generally, this will be the amount you will enter on line 4b of Form 8926 in the following tax year.

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The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for business taxpayers filing this form is approved under OMB control number 1545-0123 and is included in the estimates shown in the instructions for their business income tax return.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.