

LB&I International Practice Service Process Unit – Audit

IPS Level	Number	Title	UIL Code	Number
Shelf	N/A	Business Inbound	–	–
Volume	6	Inbound Income Shifting	Level 1 UIL	9422
Part	6.1	U.S. Branch Allocations (Non-Treaty ECI Determinations)	Level 2 UIL	9422.01
Chapter	6.1.2	Determination of Proper Expense Allocation	Level 3 UIL	9422.01-02
Sub-Chapter	6.1.2.3	Interest Expense of U.S. Branch	–	–

Unit Name	Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)
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Document Control Number (DCN)	ISI/9422.01_04(2016)
Date of Last Update	02/08/2016

Table of Contents

(View this PowerPoint in “Presentation View” to click on the links below)

[Process Overview](#)

[Determination of Process Applicability](#)

[Summary of Process Steps](#)

[Process Steps](#)

[Other Considerations and Impacts to Audit](#)

[Training and Additional Resources](#)

[Glossary of Terms and Acronyms](#)

[Index of Related Issues](#)

Process Overview

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Process Description

Foreign Corporations (FC) engaged in a U.S. trade or business (USTB) calculate taxable income in accordance with IRC 882(a)(2). With respect to the deductions being claimed, this unit covers interest expense and specifically the application of the interest expense allocation formula under Treas.Reg.1.882-5.

This process unit explores the key components of the interest expense allocation formula under Treas.Reg.1.882-5 as well as certain elections that are available to taxpayers to maximize the interest expense.

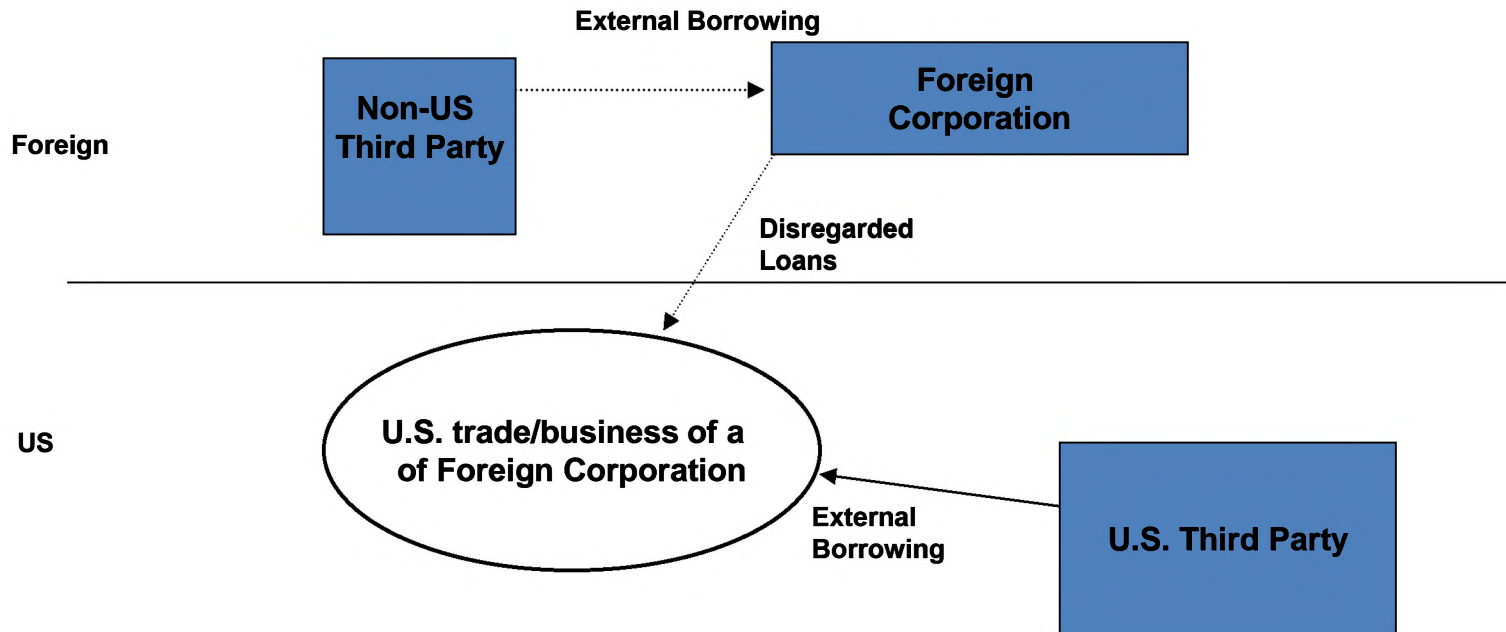
Example Circumstances Under Which Process Applies

- These regulations discussed in this unit generally apply whenever a FC is filing a Form 1120-F and claims interest deductions.
- However, these regulations may not apply if the FC is resident in certain treaty jurisdictions and allocates interest expense under such treaty.
- Certain interest expense items are directly allocable to a FC's Effectively Connected Income (ECI), including certain interest expense of a partnership in which the FC is a partner, and thus are not subject to the three step process described in Treas. Reg. 1.882-5. For a description of the exceptions see Treas. Reg. 1.882-5(a)(1)(ii) and Treas. Reg. 1.861-10T(b)-(d).

Process Overview (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Example Circumstances Under Which Process Applies



Determination of Process Applicability

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

The following criteria should be present before the taxpayer can apply Treas. Reg 1.882-5.

Criteria	Resources	6103 Protected Resources
Taxpayer is claiming an interest expense deduction on Form 1120-F	<ul style="list-style-type: none">▪ Form 1120-F:▪ Form 1120-F Schedule I▪ Form 1120-F IRC 2 Line 18▪ Form 1120-F Schedule M-3, Part III	

Summary of Process Steps

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 1	Determine the amount of U.S. assets
Step 2	Determine the amount of U.S. booked liabilities
Step 3	Determine what elections the taxpayer has made to compute the interest expense deduction
Step 4	Calculate the allocable interest expense to the U.S. trade or business

Step 1

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 1: Determine the amount of U.S. assets

Determining the amount of US assets is a factual determination based on the rules discussed below

Considerations	Resources	6103 Protected Resources
<p>The allocation of interest expense requires classifying assets as U.S. assets. The determination of U.S. assets generally follows the rules for branch profits tax.</p> <p>“U.S. asset” generally means an asset held on the determination date if :</p> <ul style="list-style-type: none"> ▪ All income produced by the asset is (or would have been) Effectively Connected Income (ECI) and ▪ All gain from the disposition of the asset would be ECI if disposed of on the determination date. 	<ul style="list-style-type: none"> ▪ Treas. Reg. 1.882-5 Determination of interest deduction ▪ Treas. Reg. 1.882-5(b)(1) ▪ Treas. Reg. 1.882-5(b)(1)(iii)(A) ▪ Treas. Reg. 1.882-5(b)(1)(iii)(C) ▪ Treas. Reg. 1.882-5(b)(1)(iii)(D) ▪ Treas. Reg. 1.884-1(d) 	

Step 1 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 1: Determine the amount of U.S. assets

Determining the amount of US assets is a factual determination based on the rules discussed below

Considerations	Resources	6103 Protected Resources
<p>Other assets may be treated as a U.S. asset under special rules:</p> <ul style="list-style-type: none"> ▪ Depreciable personal property or amortizable intangible property to the extent allowable as a deduction for computing ECI ▪ Inventory property (as defined in IRC 865(i)(1)) to the extent gain/loss is includable in ECI ▪ Installment obligation received in connection with an installment sale (as defined in IRC 453(b)) for which an election under IRC 453(d) has not been made to the extent that it is received in connection with the sale of a U.S. asset. 	<ul style="list-style-type: none"> ▪ Treas. Reg. 1.884-1: ▪ Treas. Reg. 1.884-1(d)(2)(i) ▪ Treas. Reg. 1.884-1(d)(2)(ii) ▪ Treas. Reg. 1.884-1(d)(2)(iii) ▪ Treas. Reg. 1.884-1(d)(2)(iv) ▪ Treas. Reg. 1.884-1(d)(2)(v) ▪ Treas. Reg. 1.884-1(d)(2)(viii) ▪ Treas. Reg. 1.884-1(d)(2)(ix) ▪ Treas. Reg. 1.884-1(d)(2)(x) ▪ Treas. Reg. 1.884-1(d)(3)(i) 	

Step 1 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 1: Determine the amount of U.S. assets

Determining the amount of US assets is a factual determination based on the rules discussed below

Considerations	Resources	6103 Protected Resources
<ul style="list-style-type: none"> ▪ Receivables arising from the sale or exchange of inventory property ▪ Bank and other deposits that are interest bearing and deposits that are non interest bearing, if income earned is ECI. ▪ An overpayment of Federal income taxes to the extent that the tax would reduce a foreign corporation's Effectively connected earnings and profits ▪ Assets generating a disallowed loss under IRC 165 because there is a reasonable prospect of recovering compensation ▪ Property compulsorily or involuntarily converted into non-similar property 		

Step 1 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 1: Determine the amount of U.S. assets

Determining the amount of US assets is a factual determination based on the rules discussed below

Considerations	Resources	6103 Protected Resources
Items excluded from definition of U.S. asset: ▪ Railroad rolling stock ▪ Communications satellite systems	▪ Treas. Reg. 1.882-5(b)(1)(ii)	

Step 1 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 1: Determine the amount of U.S. assets

Determining the amount of US assets is a factual determination based on the rules discussed below

Considerations	Resources	6103 Protected Resources
<p>Audit Tips:</p> <p>Did the taxpayer elect U.S. basis or worldwide basis reporting for the balance sheet on Form 1120-F, Schedule L</p> <p>If taxpayer elected the worldwide basis, the profit and loss results from the same set(s) of books must be used to report the adjusted worldwide net income (loss) results on Schedule M-3 of Form 1120-F. Also, the US assets will be a subset of the worldwide assets</p> <p>As previously mentioned, certain interest expenses incurred through partnerships are directly allocable to ECI. The associated assets and liabilities are disregarded under the formula discussed later.</p>	<ul style="list-style-type: none"> ▪ Form 1120-F Instructions, Schedule L ▪ Treas. Reg. 1.6012-2(g)(1)(iii) ▪ Worldwide or separately prepared (audited, compiled or reviewed) financial statements ▪ Schedule M-3, Part I, Line 11 ▪ Form 1120-F, Schedule P ▪ Treas. Reg. 1.882-5(a)(1)(ii) ▪ Treas. Reg. 1.861-10T(b)-(d) 	

Step 1 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 1: Determine the amount of U.S. assets

Determining the amount of US assets is a factual determination based on the rules discussed below

Considerations	Resources	6103 Protected Resources
<p>Audit Tips:</p> <p>Inquire about assets arising from interbranch transactions (transactions between two or more branches of FC or between FC's home office and a branch) . Eliminate such amounts from total U.S. assets</p> <p>Confirm that if the taxpayer is making a fair market value election it is applying it consistently to all assets on the balance sheet</p> <p>The total value of U.S. assets for the taxable year is the average of the sums of the values of the U.S. assets. Determine how often the value of the assets is calculated for a FC.</p>	<ul style="list-style-type: none"> ▪ Treas. Reg. 1.882-5: ▪ Treas. Reg. 1.882-5(b)(1)(iv) ▪ Treas. Reg. 1.882-5(b)(2)(ii) ▪ The determination is made at least semiannually per Treas. Reg. 1.882-5(b)(3)(i) ▪ Form 1120-F, Schedule I, Step 1, Line 1 	

Step 1 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 1: Determine the amount of U.S. assets

Determining the amount of US assets is a factual determination based on the rules discussed below

Considerations	Resources	6103 Protected Resources
<p>Audit Tips:</p> <p>Confirm U.S. assets were not acquired to increase U.S. assets artificially.</p> <p>Review assets recorded on the books of foreign parent and foreign branches to determine if they meet the standards previously discussed (slides 7 & 8) and consider reclassifying them as U.S. assets. Also, assets on the U.S. books that don't meet the standards discussed must be eliminated from US assets.</p> <p>The potential adjustments to U.S. assets will increase or decrease the US assets in the calculation of U.S. Connected Liabilities (USCL) determined under Treas. Reg. 1.882-5.</p>	<ul style="list-style-type: none"> ▪ Treas. Reg. 1.882-5: ▪ Treas. Reg 1.882-5(b)(1)(v) ▪ Treas. Reg 1.882-5(b)(1)(ii) and (iii) 	

Step 2

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 2: Determine the amount of U.S. booked liabilities

Determining the amount of US booked liabilities is a factual determination based on the regulations discussed below

Considerations	Resources	6103 Protected Resources
<p>The next step in computing the allocation of interest expense requires identifying USCL. After USCL have been determined, USCL must be compared to U.S. booked liabilities (USBL)</p> <p>A liability is a U.S. booked liability if it is properly reflected on the books of the U.S. trade or business. A liability is properly reflected on the books of such a corporation if either (1) the liability is secured predominantly by a U.S. asset of a non-bank foreign corporation; (2) the foreign corporation enters the liability on a set of books relating to an activity that produces ECI at a time “reasonably contemporaneous” with the time at which the liability is incurred; or (3) the foreign corporation maintains a set of books and records relating to an activity that produces ECI and the IRS determines that there is a direct connection or relationship between the liability and that activity.</p>	<ul style="list-style-type: none"> ▪ Treas. Reg. 1.882–5 ▪ Treas. Reg. 1.882-5(d)(2)(i) ▪ Treas. Reg. 1.882-5(d)(2)(ii) ▪ Treas. Reg. 1.882-5(d)(2)(vii) 	

Step 2 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 2: Determine the amount of U.S. booked liabilities

Determining the amount of US booked liabilities is a factual determination based on the regulations discussed below

Considerations	Resources	6103 Protected Resources
A partner's share of liabilities of a partnership is considered a booked liability of the partner provided that it is properly reflected on the books of the U.S. trade or business of the partnership		

Step 2 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 2: Determine the amount of U.S. booked liabilities

Determining the amount of US booked liabilities is a factual determination based on the regulations discussed below

Considerations	Resources	6103 Protected Resources
<p>Based on facts and circumstances, is there a direct connection between the liability and an activity that produces ECI?</p> <p>Determine how often the average of the liabilities is calculated for the FC.</p>	<ul style="list-style-type: none">▪ Treas. Reg. 1.882-5(d)(3); at least semi-annually for taxpayers other than banks	

Step 2 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 2: Determine the amount of U.S. booked liabilities

Determining the amount of US booked liabilities is a factual determination based on the regulations discussed below

Considerations	Resources	6103 Protected Resources
<p>Audit Tips:</p> <p>Has the FC elected to reduce its US liabilities under the branch profits tax regime (in order to increase net equity and potentially reduce the dividend equivalent amount) ? If so, it must reduce its USCL under Treas. Reg. 1.882-5 by the same amount, typically reducing interest expense that is apportioned to ECI</p> <p>Consider whether a booked liability may be incurred or held to artificially increase interest expense</p> <p>Is the average interest rate related to the booked liabilities higher than the Interest rates denominated in the same currency recorded in other foreign branches ?</p>	<ul style="list-style-type: none"> ▪ Treas. Reg 1.884-1(e)(3)(iii) ▪ Form 1120-F,, Schedule I, Step 2, Line 7b ▪ Treas. Reg. 1.882-5(d)(2)(v) 	

Step 2 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 2: Determine the amount of U.S. booked liabilities

Determining the amount of US booked liabilities is a factual determination based on the regulations discussed below

Considerations	Resources	6103 Protected Resources
Test the interest rate on the specific liability and compare it to interest rate on non related-party liabilities. If substantially greater, you may consider disallowing the liability.		

Step 2 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 2: Determine the amount of U.S. booked liabilities

Determining the amount of US booked liabilities is a factual determination based on the regulations discussed below

Considerations	Resources	6103 Protected Resources
<p>Audit Tips:</p> <p>If a determination is made that a booked liability has been incurred or held to artificially increase interest expense, consider disallowing the booked interest expense and U.S. Booked Liability (USBL).</p> <p>Factors to be considered in determining whether one of the principal purposes for incurring or holding a liability is to increase artificially the interest expense on U.S. booked liabilities of a foreign corporation include 1) whether the interest expense on the liability is excessive when compared to other liabilities of the foreign corporation denominated in the same currency and 2) whether the currency denomination of the liabilities of the U.S. branch substantially matches the currency denomination of the U.S. branch's assets.</p>	<ul style="list-style-type: none"> ▪ Treas. Reg. 1.882-5: ▪ Treas. Reg. 1.882-5(c) ▪ Treas. Reg. 1.882-5(d)(2)(v) ▪ Treas. Reg. 1.882-5(d)(2)(viii) 	

Step 2 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 2: Determine the amount of U.S. booked liabilities

Determining the amount of US booked liabilities is a factual determination based on the regulations discussed below

Considerations	Resources	6103 Protected Resources
Interbranch loans, payables or other interbranch liability should be disregarded.		

Step 3

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 3: Determine what elections the taxpayer has made to compute the interest expense deduction

Verify the elections made through disclosures made on the tax return

Considerations	Resources	6103 Protected Resources
<p>A taxpayer has many elections it can make which can make the interest expense calculations administratively simpler while maximizing the interest expense deduction at the same time.</p> <p>FC, other than a bank or insurance company, may make a fixed ratio election of 50% for the total amount of USCL for the taxable year for Treas. Reg. 1.882-5(c) Step 2 purposes; however once elected it is generally binding for 5 years.</p> <p>A taxpayer may make a fair market value election for all of its U.S. assets, but must use the actual ratio for Treas. Reg. 1.882-5(c) Step 2 purposes. Once elected, the fair market value method must be used for both Treas. Reg. 1.882-5 Step 1 and 2 unless consent to change has been received.</p>	<ul style="list-style-type: none"> ▪ Treas. Reg. 1.882-5: ▪ Treas. Reg. 1.882-5(a)(7) ▪ Treas. Reg. 1.882-5(b)(2)(ii)(A)(1) ▪ Treas. Reg. 1.882-5(b)(2)(ii)(A)(2) ▪ Treas. Reg. 1.882-5(c)(4) ▪ Treas. Reg. 1.882-5(e) 	

Step 3 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 3: Determine what elections the taxpayer has made to compute the interest expense deduction

Verify the elections made through disclosures made on the tax return

Considerations	Resources	6103 Protected Resources
A taxpayer can also elect to use the separate currency pools method.		

Step 3 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 3: Determine what elections the taxpayer has made to compute the interest expense deduction

Verify the elections made through disclosures made on the tax return

Considerations	Resources	6103 Protected Resources
<p>Confirm that all elections have been properly made on Form 1120-F, Schedule I or supporting statements attached to Schedule I</p>	<ul style="list-style-type: none"> ▪ Form 1120-F ▪ Form 1120-F Schedule I Question B ▪ Form 1120-F Schedule I Step 1 Q1 ▪ Form 1120-F Schedule I Step 2 Q6 ▪ Form 1120-F Schedule I Step 2 Q6d ▪ Form 1120-F Schedule I Step 3 Q10 	

Step 4

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 4: Calculating the allocable interest expense to the U.S. trade or business

Follow the 3 step formula to determine the proper allocable interest expense.

Considerations	Resources	6103 Protected Resources
<p>The regulations provide for a three step process for calculating interest expense:</p> <p>Step 1</p> <ul style="list-style-type: none"> ▪ Determine the total value of the U.S. assets of the FC <p>Step 2</p> <ul style="list-style-type: none"> ▪ Determine the U.S.-connected liabilities (USCL) of the foreign corporation ▪ This is the product of the U.S. assets multiplied either by a) the actual ratio of worldwide liabilities (WWL) to worldwide assets (WWA) or b) an elective fixed ratio provided in the regulations. 	<ul style="list-style-type: none"> ▪ Form 1120-F ▪ Form 1120-F, Schedule I, Step 1, Line 5 ▪ Form 1120-F, Schedule I, Step 2, Line 7c ▪ Treas. Reg. 1.882-5 ▪ Treas. Reg. 1.882-5(b) ▪ Treas. Reg. 1.882-5(c) ▪ Treas. Reg. 1.882-5(c)(4): 	

Step 4 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 4: Calculating the allocable interest expense to the U.S. trade or business

Follow the 3 step formula to determine the proper allocable interest expense.

Considerations	Resources	6103 Protected Resources
Actual Ratio: $USCL = \frac{\text{U.S. Assets} \times WWL}{WWA}$ Or Fixed Ratio: $USCL = \text{U.S. Assets} \times \text{fixed ratio}$ (50% for all non-banks and non-insurance companies)		

Step 4 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 4: Calculating the allocable interest expense to the U.S. trade or business

Follow the 3 step formula to determine the proper interest expense.

Considerations	Resources	6103 Protected Resources
<p>Step 3</p> <ul style="list-style-type: none"> ▪ Determine the allocable amount of interest expense under the Adjusted U.S. Booked Liabilities (“AUSBL”) method, or, if the taxpayer elects, under the separate currency pools method. ▪ Under the AUSBL method, the foreign corporation’s allocable interest expense is determined by comparing the U.S. booked liabilities (USBL) with the foreign corporation’s U.S.-Connected liabilities (USCL) – If the USBL exceed the USCL, then the U.S. branch’s allowable interest expense (USBI) is equal to the product of a) interest paid or accrued by the U.S. trade/business on booked liabilities and b) the scaling ratio (USCL / USBL) 	<ul style="list-style-type: none"> ▪ Treas. Reg. 1.882–5(d)(5)(ii)(B) ▪ Form 1120-F, Schedule I, Step 3, Line 15 ▪ Compare Form 1120-F Schedule I, Step 2, Line 7c to Schedule I Step 3 Line 8c ▪ IRS AM 2009-015 Interest Rate for Excess U.S.-Connected Liabilities 	

Step 4 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 4: Calculating the allocable interest expense to the U.S. trade or business

Follow the 3 step formula to determine the proper interest expense.

Considerations	Resources	6103 Protected Resources
–If the USCL exceed the USBL, than the U.S. branch’s interest expense is the sum of the U.S. booked interest expense plus the excess USCL multiplied by the foreign corporation’s U.S. dollar borrowing rate on liabilities that are not booked liabilities, or if a FC does not have US dollar denominated liabilities shown on the books of the foreign offices or foreign branches of the FC for the taxable year, a reasonable rate under the facts and circumstances		

Step 4 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 4: Calculating the allocable interest expense to the U.S. trade or business

Special situations to consider in the calculations of allocable interest expense



Considerations	Resources	6103 Protected Resources
<p>Under the separate currency pools method, the first two steps in the regulations are performed for each of the currencies in which the foreign corporation has U.S. assets. Under a special third step, the interest rate applicable to each currency is determined by multiplying USCL by a prescribed interest rate. The prescribed interest rate is determined by dividing the total interest expense incurred on each currency by the FC's average worldwide liability for the year in such currency.</p> <p>If interest expense is allocated to the FC's U.S. trade or business (e.g., if USCL exceed USBL) consider the implications for the branch-level interest tax (BLIT)</p>	<ul style="list-style-type: none"> ▪ Treas. Reg. 1.882-5(e) ▪ IRC § 884(f) 	

Step 4 (cont'd)

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Step 4: Calculating the allocable interest expense to the U.S. trade or business

Special situations or other tax effects from performing the calculations

Considerations	Resources	6103 Protected Resources
<p>Any provision that disallows, defers, or capitalizes interest expense (e.g. §265, 163(j), 163(e)(3), 267(a)(3) or 263A) applies after determining the amount of interest expense allocated to ECI</p>	<ul style="list-style-type: none"> ▪ Treas. Reg. 1.882-5 ▪ Treas. Reg. 1.882-5(a)(2) ▪ Treas. Reg. 1.882-5(a)(5) 	
<p> TREATY IMPLICATIONS: If the FC is organized in a country that has a treaty with the U.S. then the Treas. Reg. § 1.882-5 formulary approach may not be the appropriate method to calculate interest expense.</p> <p> CONSULTATION: Please contact counsel for further guidance and consultation on the application of the applicable treaty or Authorized OECD Approach (AOA) determination.</p>	<ul style="list-style-type: none"> ▪ OECD 2010 Report on the Attribution of Profits to Permanent Establishments(July 22, 2010) Part II ▪ United States Model Technical Explanation Accompanying United States Income Tax Convention of November 15, 2006 Article 7, paragraph 3 	

Other Considerations / Impact to Audit

Interest Expense of a Foreign Corporation Engaged in a U.S. Trade/Business (Non-Bank, Non-Treaty)

Considerations	Resources
<p>Consider the effects on the Branch Level Interest Tax for any changes to allocated interest expense especially if USCL exceed USBL</p> <p>Consider the effects on the branch profits tax calculation, since liabilities effect the computation of U.S. net equity</p> <p>Limitation on interest expense: In no event may the amount of interest expense computed under Treas. Reg. 1.882-5 exceed the amount of interest on indebtedness paid or accrued by the taxpayer within the taxable year.</p>	<ul style="list-style-type: none">▪ IRC 884▪ IRC 884(f)(1)(A)▪ IRC 884(c)(2)(B) ▪ Treas. Reg. 1.882-5(a)(3)

Training and Additional Resources

Chapter 6.1.2 Determination of Proper Expense Allocation

Type of Resource	Description(s) and/or Instructions for Accessing	References
CENTRA sessions	<ul style="list-style-type: none">2/14/13- Form 1120-F Audit Tips Training Module 5 Interest Expense3/6/13- FY 13 CPE Branch Interest Expense/Branch Level Interest Tax	<ul style="list-style-type: none">CENTRACENTRA
Issue Toolkits	<ul style="list-style-type: none">Job Aid- ProForma IDR's: Interest Expense of a foreign corporation (nonbank)	<ul style="list-style-type: none">Jurisdiction to Tax IPN SharePoint Website

Glossary of Terms and Acronyms

Acronym	Definition
AOA	Authorized OECD Approach
AUSBL	Adjusted U.S. Booked Liabilities
BLIT	Branch Level Interest Tax
ECI	Effectively Connected Income
FC	Foreign Corporation
USBI	U.S. Branch Allowable Interest Expense
USBL	U.S. Booked Liabilities
USCL	U.S. Connected Liabilities
USTB	U.S Trade or Business

Index of Related Issues

Issue	Associated UIL(s)	References
Interest Expense of U.S. Branch of Foreign Bank	9422.01-02	Job Aid - Proforma IDRs -Interest Expense of a foreign corporation (bank)