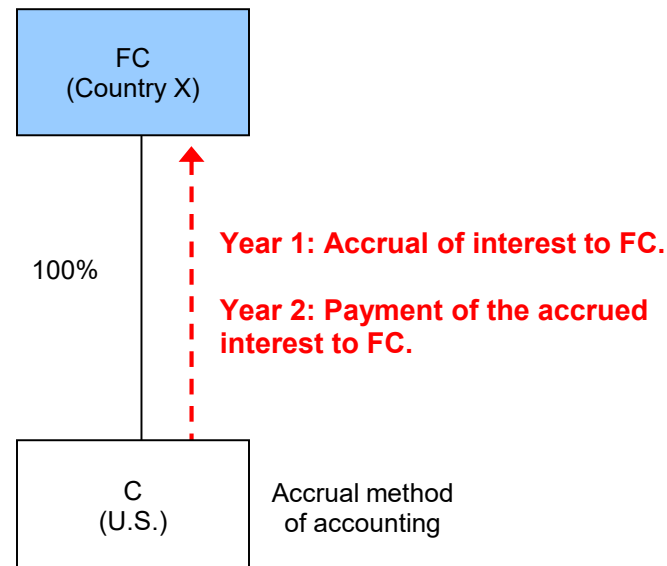


**Reg. 1.267(a)-3(b)(4)
Example 1**

**Interest Expense of Accrual
Taxpayer Not Deductible Until Paid**

Copyright © 2020 Andrew Mitchel LLC
International Tax Services
www.andrewmitchel.com



(i) FC, a corporation incorporated in Country X, owns 100 percent of the stock of C, a domestic corporation. C uses the accrual method of accounting in computing its income and deductions, and is a calendar year taxpayer. In Year 1, C accrues an amount owed to FC for interest. C makes an actual payment of the amount owed to FC in Year 2.

(ii) Regardless of its source, the interest owed to FC is an amount to which Reg. 1.267(a)-3 applies. Pursuant to the rules of Reg. 1.267(a)-3(b), the amount owed to FC by C will not be allowable as a deduction in Year 1. Section 267 does not preclude the deduction of this amount in Year 2.