

Cheat Sheet: 1.861-9 and 9T Partnership Interest Expense Allocation Rules for Individuals

Copyright © 2022 Andrew Mitchel LLC
International Tax Services
www.andrewmitchel.com

	Aggregate Rule (General partners & 10% or greater limited partners; 1.861-9T(e)(1) & -9(e)(3))	Entity Rule (Less than 10% limited partners; 1.861-9(e)(4)(i) & -9T(e)(4)(ii))
Interest expense of that partnership	Treat the partner as having incurred his or her pro rata share of the interest expense directly (i.e., apportion based on worldwide assets in that category)	Apportion the partner's pro rata share of the interest expense based on the gross income of that partnership. 1.861-9(e)(4)(i)
Other interest expense	Apportion the interest expense based on worldwide assets in that category..	Apportion the interest expense based on worldwide assets in that category.
Partnership Assets	Include the partner's pro rata share of the partnership's assets for purposes of determining worldwide assets in each category. The partnership assets are not included net of liabilities .	Include the partner's basis in the partnership interest for purposes of determining worldwide assets in each category. The basis in the partnership interest is computed without considering the effect of section 752 (i.e., assets net of liabilities). 1.861-9T(e)(4)(ii)

Asset Categories - 1.861-9T(d)(1)(i)-(iii)

- Business - 163(h)(2)(A)
- Investment - 163(h)(2)(B)
- Passive - 163(h)(2)(C)

1.861-9(e)(2) - Deals with certain corporate partners.

1.861-9T(g)(1)(i) - The asset method in general.

1.861-9(g)(1)(ii) - The fair market value method is no longer available. Section 864(e)(2).

1.861-9(g)(2)(i)(A) - The value of the assets is based the average of the beginning and end of the year values.

1.861-9(g)(2)(i)(B) - The value is based on the adjusted basis of the asset.

1.861-9T(g)(3) - Assets are characterized according to the source and type of income that they generate, have generated, or may reasonably be expected to generate.

1373(a) - An S corporation is treated as a partnership for purposes of section 904, but is not treated as a partnership for purposes of section 933. Thus, the aggregate rule can apply to an S corporation for purposes of the section 904 interest expense allocation, but cannot apply not for purposes of the section 933 interest expense allocation.

[HUNDREDS of additional charts at www.andrewmitchel.com](http://www.andrewmitchel.com)