



**BDO Seidman, LLP**  
Accountants and Consultants

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## Subject:

### Earnings Stripping Regime Adopts Look- Through Rule for Partnership Items

# International Tax Alert

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#### Issue:

The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), which was signed into law May 17th, provides for the codification of the 1991 proposed section 163(j) regulations relating to certain partnership items.

#### Affecting:

Corporations owning partnership interest(s) and paying interest to foreign related persons.

#### Details:

Section 163(j) of the internal revenue code limits the deductibility of interest paid to certain (typically foreign) related parties if the payor's net interest expense exceeds 50 percent of its adjusted taxable income and its debt-to-equity ratio exceeds 1.5 to 1.

The TIPRA codifies existing proposed 163(j) regulations. Thus, where a corporation owns, directly or indirectly, an interest in a partnership, the corporation's share of partnership liabilities, interest income, and interest expense are treated as liabilities, interest income, and interest expense of the corporation for purposes of applying the earnings stripping rules to the corporation. This provision is effective for tax years beginning on or after the date of enactment.

#### How BDO Seidman Can Help:

BDO Seidman, LLP can help you determine the deductibility of interest paid by your corporation and assist with tax planning with respect to the earnings stripping rules.

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