

# **Interest:**

## *A Tax Analysis*

### **Course Description**

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This course focuses on tax issues affecting the treatment of interest and debt. It covers the definition of bona fide debt, the impact of related parties, the avoidance of equity and lease characterization, and deductible versus nondeductible interest factors. Sticky cross issues such as the impact of at-risk rules under Section 465, passive loss restrictions of Section 469, and below-market rate loans under Section 7278 are examined. In addition, accounting method treatment of interest, points, prepaid interest, and discounted loans are reviewed. Particular attention is given to imputed interest and original issue discount.

**Completion Deadline & Exam:** This course, including the examination, must be completed within one year of the date of purchase. In addition, unless otherwise indicated, no correct or incorrect feedback for any exam question will be provided.

**Course Level:** Overview. This program is appropriate for professionals at all organizational levels.

**CPE Credits:** 2 (CPA, EA)

**Category:** Taxes

**Prerequisite:** General understanding of federal income taxation.

**Advanced Preparation:** None

### **Course Learning Objectives**

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#### **Lesson 1: Interest & Debt**

1. Determine “interest” and select how much is tax deductible under Section 163 by:
  - a. Identifying what constitutes bona fide debt considering economic substance and purpose and the differences that such debt has from installment sales, long-term & leveraged leases, and annuities;
  - b. Specifying how transactions with family members and controlled corporations can recharacterize alleged indebtedness into gift or business equity naming the factors used in this recharacterization and;

- c. Citing incentives to use corporate debt instead of equity noting the special treatment of failed equity investment under Section 1244.
- 2. Identify deductible interest noting special calculation concepts and procedures by:
  - a. Recognizing the allocation of interest based on the debt's business or personal purpose noting the application of any carryover rules;
  - b. Determining net investment income including its impact on the deductibility of investment interest;
  - c. Recognizing the special tax treatment given to student loans, margin accounts and market discount bonds noting what happens to any disallowed interest expense; and
  - d. Specifying the timing considerations in interest reporting including interest paid in advance.
- 3. Recognize nondeductible interest types and provisions that through restriction create nondeductible interest by:
  - a. Identifying when interest is nondeductible personal interest under Section 163(h)(1);
  - b. Determining the disallowance of interest related to tax-exempt income under Section 265, the life insurance interest restrictions of Section 264; the Section 465 at-risk limitations and application of the Section 469 passive loss rules; and
  - c. Specifying the treatment of certain commitment fees and service charges based on R.R. 67-297 and caselaw.
- 4. Identify interest under the cash or accrual method noting the special elections applicable to and treatment of carrying charges under Section 266, below-market loans, and imputed interest.