

# 26 U.S. Code § 267 - Losses, expenses, and interest with respect to transactions between related taxpayers

## **(a) IN GENERAL**

### **(1) DEDUCTION FOR LOSSES DISALLOWED**

No deduction shall be allowed in respect of any loss from the sale or exchange of property, directly or indirectly, between persons specified in any of the paragraphs of subsection (b). The preceding sentence shall not apply to any loss of the distributing corporation (or the distributee) in the case of a distribution in complete liquidation.

### **(2) MATCHING OF DEDUCTION AND PAYEE INCOME ITEM IN THE CASE OF EXPENSES AND INTEREST If----**

#### **(A)**

by reason of the method of accounting of the person to whom the payment is to be made, the amount thereof is not (unless paid) includible in the gross income of such person, and

#### **(B)**

at the close of the taxable year of the taxpayer for which (but for this paragraph) the amount would be deductible under this chapter, both the taxpayer and the person to whom the payment is to be made are persons specified in any of the paragraphs of subsection (b),

then any deduction allowable under this chapter in respect of such amount shall be allowable as of the day as of which such amount is includible in the gross income of the person to whom the payment is made (or, if later, as of the day on which it would be so allowable but for this paragraph). For purposes of this paragraph, in the case of a personal service corporation (within the meaning of [section 441\(i\)\(2\)](#)), such corporation and any employee-owner (within the meaning of [section 269A\(b\)\(2\)](#), as modified by [section 441\(i\)\(2\)](#)) shall be treated as persons specified in subsection (b).

### **(3) PAYMENTS TO FOREIGN PERSONS**

#### **(A) In general**

The Secretary shall by regulations apply the matching principle of paragraph (2) in cases in which the person to whom the payment is to be made is not a United States person.

#### **(B) Special rule for certain foreign entities**

##### **(i) In general**

Notwithstanding subparagraph (A), in the case of any item payable to a controlled foreign corporation (as defined in [section 957](#)) or a passive foreign investment company (as defined in [section 1297](#)), a deduction shall be allowable to the payor with respect to such amount for any taxable year before the taxable year in which paid only to the extent that an amount attributable to such item is includible (determined without regard to properly allocable deductions and qualified deficits under [section 952\(c\)\(1\)\(B\)](#)) during such prior taxable year in the gross income of a United States person who owns (within the meaning of [section 958\(a\)](#)) stock in such corporation.

##### **(ii) Secretarial authority**

The Secretary may by regulation exempt transactions from the application of clause (i), including any transaction which is entered into by a payor in the ordinary course of a trade or business in which the payor is predominantly engaged and in which the payment of the accrued amounts occurs within 8½ months after accrual or within such other period as the Secretary may prescribe.

**(b) RELATIONSHIPS** The persons referred to in subsection (a) are:

#### **(1)**

Members of a family, as defined in subsection (c)(4);

(2)

An individual and a corporation more than 50 percent in value of the outstanding stock of which is owned, directly or indirectly, by or for such individual;

(3)

Two corporations which are members of the same controlled group (as defined in subsection (f));

(4)

A grantor and a fiduciary of any trust;

(5)

A fiduciary of a trust and a fiduciary of another trust, if the same person is a grantor of both trusts;

(6)

A fiduciary of a trust and a beneficiary of such trust;

(7)

A fiduciary of a trust and a beneficiary of another trust, if the same person is a grantor of both trusts;

(8)

A fiduciary of a trust and a corporation more than 50 percent in value of the outstanding stock of which is owned, directly or indirectly, by or for the trust or by or for a person who is a grantor of the trust;

(9)

A person and an organization to which section 501 (relating to certain educational and charitable organizations which are exempt from tax) applies and which is controlled directly or indirectly by such person or (if such person is an individual) by members of the family of such individual;

(10) A corporation and a partnership if the same persons own—

(A)

more than 50 percent in value of the outstanding stock of the corporation, and

(B)

more than 50 percent of the capital interest, or the profits interest, in the partnership;

(11)

An S corporation and another S corporation if the same persons own more than 50 percent in value of the outstanding stock of each corporation;

(12)

An S corporation and a C corporation, if the same persons own more than 50 percent in value of the outstanding stock of each corporation; or

(13)

Except in the case of a sale or exchange in satisfaction of a pecuniary bequest, an executor of an estate and a beneficiary of such estate.

**(c) CONSTRUCTIVE OWNERSHIP OF STOCK** For purposes of determining, in applying subsection (b), the ownership of stock—

(1)

Stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries;

(2)

An individual shall be considered as owning the stock owned, directly or indirectly, by or for his family;

(3)

An individual owning (otherwise than by the application of paragraph (2)) any stock in a corporation shall be considered as owning the stock owned, directly or indirectly, by or for his partner;

(4)

The family of an individual shall include only his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants; and

**(5)**

Stock constructively owned by a person by reason of the application of paragraph (1) shall, for the purpose of applying paragraph (1), (2), or (3), be treated as actually owned by such person, but stock constructively owned by an individual by reason of the application of paragraph (2) or (3) shall not be treated as owned by him for the purpose of again applying either of such paragraphs in order to make another the constructive owner of such stock.

**(d) AMOUNT OF GAIN WHERE LOSS PREVIOUSLY DISALLOWED**

**(1) IN GENERAL, If—**

**(A)**

in the case of a sale or exchange of property to the taxpayer a loss sustained by the transferor is not allowable to the transferor as a deduction by reason of subsection (a)(1), and

**(B)**

the taxpayer sells or otherwise disposes of such property (or of other property the basis of which in the taxpayer's hands is determined directly or indirectly by reference to such property) at a gain, then such gain shall be recognized only to the extent that it exceeds so much of such loss as is properly allocable to the property sold or otherwise disposed of by the taxpayer.

**(2) EXCEPTION FOR WASH SALES**

Paragraph (1) shall not apply if the loss sustained by the transferor is not allowable to the transferor as a deduction by reason of section 1091 (relating to wash sales).

**(3) EXCEPTION FOR TRANSFERS FROM TAX INDIFFERENT PARTIES**

Paragraph (1) shall not apply to the extent any loss sustained by the transferor (if allowed) would not be taken into account in determining a tax imposed under section 1 or 11 or a tax computed as provided by either of such sections.

**(e) SPECIAL RULES FOR PASS-THRU ENTITIES**

**(1) IN GENERAL** In the case of any amount paid or incurred by, to, or on behalf of, a pass-thru entity, for purposes of applying subsection (a)(2)—

**(A)**

such entity,

**(B)** in the case of—

**(i)**

a partnership, any person who owns (directly or indirectly) any capital interest or profits interest of such partnership, or

**(ii)**

an S corporation, any person who owns (directly or indirectly) any of the stock of such corporation,

**(C)**

any person who owns (directly or indirectly) any capital interest or profits interest of a partnership in which such entity owns (directly or indirectly) any capital interest or profits interest, and

**(D)**

any person related (within the meaning of subsection (b) of this section or section 707(b)(1)) to a person described in subparagraph (B) or (C),

shall be treated as persons specified in a paragraph of subsection (b). Subparagraph (C) shall apply to a transaction only if such transaction is related either to the operations of the partnership described in such subparagraph or to an interest in such partnership.

**(2) PASS-THRU ENTITY** For purposes of this section, the term "pass-thru entity" means—

**(A)**

a partnership, and

**(B)**  
an S corporation.

**(3) CONSTRUCTIVE OWNERSHIP IN THE CASE OF PARTNERSHIPS** For purposes of determining ownership of a capital interest or profits interest of a partnership, the principles of subsection (c) shall apply, except that---

**(A)**  
paragraph (3) of subsection (c) shall not apply, and

**(B)**  
interests owned (directly or indirectly) by or for a C corporation shall be considered as owned by or for any shareholder only if such shareholder owns (directly or indirectly) 5 percent or more in value of the stock of such corporation.

**(4) SUBSECTION (A)(2) NOT TO APPLY TO CERTAIN GUARANTEED PAYMENTS OF PARTNERSHIPS**

In the case of any amount paid or incurred by a partnership, subsection (a)(2) shall not apply to the extent that section 707(c) applies to such amount.

**(5) EXCEPTION FOR CERTAIN EXPENSES AND INTEREST OF PARTNERSHIPS OWNING LOW-INCOME HOUSING**

**(A) In general** This subsection shall not apply with respect to qualified expenses and interest paid or incurred by a partnership owning low-income housing to---

**(i)**  
any qualified 5-percent or less partner of such partnership, or

**(ii)**  
any person related (within the meaning of subsection (b) of this section or section 707(b)(1)) to any qualified 5-percent or less partner of such partnership.

**(B) Qualified 5-percent or less partner** For purposes of this paragraph, the term "qualified 5-percent or less partner" means any partner who has (directly or indirectly) an interest of 5 percent or less in the aggregate capital and profits interests of the partnership but only if---

**(i)**  
such partner owned the low-income housing at all times during the 2-year period ending on the date such housing was transferred to the partnership, or

**(ii)**  
such partnership acquired the low-income housing pursuant to a purchase, assignment, or other transfer from the Department of Housing and Urban Development or any State or local housing authority.

For purposes of the preceding sentence, a partner shall be treated as holding any interest in the partnership which is held (directly or indirectly) by any person related (within the meaning of subsection (b) of this section or section 707(b)(1)) to such partner.

**(C) Qualified expenses and interest** For purpose of this paragraph, the term "qualified expenses and interest" means any expense or interest incurred by the partnership with respect to low-income housing held by the partnership but---

**(i)**  
only if the amount of such expense or interest (as the case may be) is unconditionally required to be paid by the partnership not later than 10 years after the date such amount was incurred, and

**(ii)**  
in the case of such interest, only if such interest is incurred at an annual rate not in excess of 12 percent.

**(D) Low-income housing** For purposes of this paragraph, the term "low-income housing" means---

**(i)**  
any interest in property described in clause (i), (ii), (iii), or (iv) of section 1250(a)(1)(B), and

**(ii)**  
any interest in a partnership owning such property.

## **(6) CROSS REFERENCE**

For additional rules relating to partnerships, see section 707(b).

## **(f) CONTROLLED GROUP DEFINED; SPECIAL RULES APPLICABLE TO CONTROLLED GROUPS**

**(1) CONTROLLED GROUP DEFINED** For purposes of this section, the term "controlled group" has the meaning given to such term by section 1563(a), except that—

**(A)**  
"more than 50 percent" shall be substituted for "at least 80 percent" each place it appears in section 1563(a), and

**(B)**  
the determination shall be made without regard to subsections (a)(4) and (e)(3)(C) of section 1563.

**(2) DEFERRAL (RATHER THAN DENIAL) OF LOSS FROM SALE OR EXCHANGE BETWEEN MEMBERS** In the case of any loss from the sale or exchange of property which is between members of the same controlled group and to which subsection (a)(1) applies (determined without regard to this paragraph but with regard to paragraph (3))—

**(A)**  
subsection (a)(1) and (d) shall not apply to such loss, but

**(B)**  
such loss shall be deferred until the property is transferred outside such controlled group and there would be recognition of loss under consolidated return principles or until such other time as may be prescribed in regulations.

## **(3) LOSS DEFERRAL RULES NOT TO APPLY IN CERTAIN CASES**

### **(A) Transfer to DISC**

For purposes of applying subsection (a)(1), the term "controlled group" shall not include a DISC.

**(B) Certain sales of inventory** Except to the extent provided in regulations prescribed by the Secretary, subsection (a)(1) shall not apply to the sale or exchange of property between members of the same controlled group (or persons described in subsection (b)(10)) if—

**(i)**  
such property in the hands of the transferor is property described in section 1221(a)(1),

**(ii)**  
such sale or exchange is in the ordinary course of the transferor's trade or business,

**(iii)**  
such property in the hands of the transferee is property described in section 1221(a)(1), and

**(iv)**  
the transferee or the transferor is a foreign corporation.

### **(C) Certain foreign currency losses**

To the extent provided in regulations, subsection (a)(1) shall not apply to any loss sustained by a member of a controlled group on the repayment of a loan made to another member of such group if such loan is payable in a foreign currency or is denominated in such a currency and such loss is attributable to a reduction in value of such foreign currency.

**(D) Redemptions by fund-of-funds regulated investment companies** Except to the extent provided in regulations prescribed by the Secretary, subsection (a)(1) shall not apply to any distribution in redemption of stock of a regulated investment company if—

**(i)**  
such company issues only stock which is redeemable upon the demand of the stockholder, and

**(ii)**  
such redemption is upon the demand of another regulated investment company.

## **(4) DETERMINATION OF RELATIONSHIP RESULTING IN DISALLOWANCE OF LOSS, FOR PURPOSES OF OTHER PROVISIONS**

For purposes of any other section of this title which refers to a relationship which would result in a disallowance of losses under this section, deferral under paragraph (2) shall be treated as disallowance.

**(g) COORDINATION WITH SECTION 1041**

Subsection (a)(1) shall not apply to any transfer described in section 1041(a) (relating to transfers of property between spouses or incident to divorce).

(Aug. 16, 1954, ch. 736, 68A Stat. 78; Pub. L. 95-628, § 2(a), Nov. 10, 1978, 92 Stat. 3627; Pub. L. 97-354, § 3(h), Oct. 19, 1982, 96 Stat. 1689; Pub. L. 98-369 div. A, title I, § 174(a)-(b)(4), title VII, § 721(s), July 18, 1984, 98 Stat. 704-707, 970; Pub. L. 99-514, title VIII, §§ 803(b)(5), 806(c)(2), title XVIII, §§ 1812(c)(1), (2), (3)(C), (4)(A), 1842(a), Oct. 22, 1986, 100 Stat. 2356, 2364, 2834, 2835, 2852; Pub. L. 100-647, title I, §§ 1006(e)(9), 1008(e)(6), Nov. 10, 1988, 102 Stat. 3401, 3441; Pub. L. 105-34, title XIII, § 1308(a), title XVI, § 1604(e)(1), Aug. 5, 1997, 111 Stat. 1041, 1098; Pub. L. 106-170, title V, § 532(c)(2)(C), Dec. 17, 1999, 113 Stat. 1930; Pub. L. 108-357, title VIII, § 841(b), Oct. 22, 2004, 118 Stat. 1598; Pub. L. 111-325, title III, § 306(b), Dec. 22, 2010, 124 Stat. 3549; Pub. L. 113-295, div. A, title II, § 221(a)(44), Dec. 19, 2014, 128 Stat. 4044; Pub. L. 114-113, div. Q, title III, § 345(a), Dec. 18, 2015, 129 Stat. 3115.)