



# Instructions for Form 8990

(December 2018)

## Limitation on Business Interest Expense Under Section 163(j)

Section references are to the Internal Revenue Code unless otherwise noted.

### Future Developments

For the latest information about developments related to Form 8990 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form8990](http://IRS.gov/Form8990).

### What's New

The Tax Cuts and Jobs Act (P.L. 115-97) amended section 163(j) to reflect a limitation on the deduction for business interest expense for certain taxpayers in tax years beginning after 2017.

## General Instructions

### Purpose of Form

Use Form 8990 to figure the amount of business interest expense you can deduct and the amount to carryforward to the next year. For more information, see Proposed Regulations sections 1.163(j)-1 through 1.163(j)-11.

**Computation of section 163(j) limitation.** If section 163(j) applies to you, the business interest expense deduction allowed for the tax year is limited to the sum of:

1. [Business interest income](#),
2. 30% of the [adjusted taxable income](#), and
3. [Floor plan financing interest expense](#).

**Carryforward of disallowed business interest.** The amount of any business interest expense that is not allowed as a deduction under section 163(j) for the tax year is carried forward to the following year as a disallowed business interest expense carryforward. However, see [Special Rules](#) for partnership treatment of disallowed business interest expense, later.

### Who Must File

A taxpayer with [business interest expense](#); a disallowed business interest expense carryforward; or, current year or prior year excess business interest expense, generally must file Form 8990, unless an exclusion from filing applies.

A pass-through entity allocating excess taxable income or excess business interest income to its owners (that is, a

pass-through entity that is not a small business taxpayer) must file Form 8990, regardless of whether it has any interest expense.

A taxpayer who is a U.S. shareholder of an applicable controlled foreign corporation (CFC) and such CFC has business interest expense, a disallowed business interest expense carryforward; or is part of a CFC group election generally, must attach Form 8990 with Form 5471. See Proposed Regulations section 1.163(j)-7(b).

**Exclusions from filing.** A taxpayer is not required to file Form 8990 if the taxpayer is a [small business taxpayer](#) and does not have excess business interest expense from a partnership. A taxpayer is also not required to file Form 8990 if it only has interest expense from these excepted trades or businesses:

- The trade or business of providing services as an employee,
- An [electing real property trade or business](#),
- An [electing farming business](#), or
- [Certain utility business](#).

If a pass-through entity is not required to file Form 8990 because it is a small business taxpayer, but a partner or shareholder is required to file Form 8990, the pass-through entity may be requested to provide certain information so that the partner or shareholder can complete their return. See [Ownership of pass-through entities not subject to the section 163\(j\) limitation](#), later.

### Coordination With Other Limitations

**Categorization and allocation of interest expense.** Current year interest expense must be categorized under Temporary Regulations section 1.163-8T (for example as investment interest, personal interest, or business interest) before computing the section 163(j) limitation on the deduction for business interest expense. Only business interest expense is subject to the section 163(j) limitation.

For purposes of the section 163(j) limitation only, business interest expense refers to interest expense properly allocable to trades or businesses that are not excepted trades or businesses. See [Taxpayers with both excepted and non-excepted trades or businesses](#), later, for allocating interest expense between

excepted and non-excepted trades or businesses before computing the section 163(j) limitation.

**Interest expense limitations.** An expense that has been disallowed, deferred, or capitalized in the current tax year, or which has not yet been accrued, is not taken into account for section 163(j) purposes. Section 163(j) applies after any basis limitation and before the operation of the at-risk, passive activity loss, or excess business loss limitations. See Proposed Regulations section 1.163(j)-3 for additional information on interactions of section 163(j) with other code provisions.

If a taxpayer's deduction for business interest expense is limited under section 163(j) and such taxpayer has more than one business activity for purposes of either the at-risk (section 465) or passive activity loss (section 469) limitation provisions, then the section 163(j) limitation will apply to the overall business interest expense from all the business activities of the taxpayer. The proportion of each activity's business interest expense that is disallowed is the same proportion as the disallowed business interest expense over the total business interest expense. See Proposed Regulations section 1.163(j)-3(c) example 4 and Temporary Regulations section 1.163-8T.

### Definitions

The definitions below are only for the purpose of applying section 163(j).

**Small business taxpayer.** A small business taxpayer is not subject to the section 163(j) limitation and is generally not required to file Form 8990.

A small business taxpayer is a taxpayer that is not a tax shelter (as defined in section 448(d)(3)) and has average annual gross receipts of \$25 million or less for the 3 prior tax years under the gross receipts test of section 448(c).

A pass-through entity that is a small business taxpayer does not allocate excess taxable income, excess business interest income, or excess business interest to its owners.

**Gross receipts test.** A taxpayer meets the gross receipts test if the taxpayer has average annual gross receipts of \$25 million or less for the 3 prior tax years.

A taxpayer's average annual gross receipts for the 3 prior tax years is determined by:

1. Adding the gross receipts for the 3 prior tax years, and
2. Dividing the total by 3.

For purposes of the section 163(j) limitation, the gross receipts test applies to all taxpayers. In the case of any taxpayer which is not a corporation or a partnership, and except as provided below, the gross receipts test is applied in the same manner as if such taxpayer were a corporation or a partnership.

Gross receipts for any tax year must be reduced by returns and allowances made during the year. For individuals, gross receipts do not include inherently personal amounts such as disability benefits, Social Security benefits, and wages received as an employee and reported on Form W-2.

For purposes of section 163(j), a taxpayer with an ownership interest in a partnership or S corporation, must include a share of the partnership's or S corporation's gross receipts, in proportion to the partner's distributive share or S corporation's pro rata share of gross income, unless the partner and partnership, or S corporation shareholder and S corporation, are treated as a single person.

The gross receipts of an organization subject to tax under section 511 only includes gross receipts taken into account in determining its unrelated business taxable income.

**Note.** Gross receipts must meet the definition under section 448(c) and Temporary Regulations section 1.448-1T(f)(2)(iv).

Any reference to your business' gross receipts also includes a reference to the gross receipts of any predecessor of your business. If your business was not in existence for the entire 3-year period, base your average annual gross receipts on the period your business existed. Also, if your business had a tax year of less than 12 months, your gross receipts must be annualized by multiplying the gross receipts for the short period by 12 and dividing the result by the number of months in the short period.

The prior period gross receipts must be annualized for any short period before dividing by 3.

For assistance in preparing the average annual gross receipts, see the [Average Annual Gross Receipts Worksheet Per Section 448\(c\)](#).

**Gross receipts aggregation for members of controlled group, businesses under common control, or members of affiliated group.** For purposes of section 163(j), gross receipts may include the receipts of more than one taxpayer. For this purpose, all members of

a controlled group of corporations (as defined in section 52(a)), and all members of a group of businesses under common control (as defined in section 52(b)), are treated as a single person; and all members of an affiliated service group (as defined in sections 414(m) and (o)) shall be treated as a single person. If you and a partnership or S corporation in which you hold an interest are treated as a single person for purposes of the gross receipts test, aggregate the partnership's or S corporation's gross receipts with your gross receipts. Do not duplicate amounts by also including a share of partnership or S corporation gross receipts as your own gross receipts.

For more information, see [Average Annual Gross Receipts Worksheet Per Section 448\(c\)](#), later.

**Excepted trade or business.** A trade or business does not include:

- Performing services as an employee.
- An [electing real property trade or business](#),
- An [electing farming business](#), or
- [Certain utility business](#).

How to make an election and the effect of being an excepted trade or business are discussed under [Special Rules](#), later.

**Electing real property trade or business.** A real property trade or business (as defined in section 469(c)(7)) may elect out of the section 163(j) limitation. Real property trade or business means any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business.

**Electing farming business.** Farming businesses (as defined in section 263A(e)(4)) and specified agricultural and horticultural cooperatives (as defined in section 199A(g)(4)) may elect out of the section 163(j) limitation. A farming business includes livestock, dairy, poultry, fish, fruit, nuts, and truck farms. It also includes plantations, ranches, ranges, and orchards. A fish farm is an area where fish and other marine animals are grown or raised and artificially fed, protected, etc., but it does not include an area where they are merely caught or harvested. A plant nursery is a farm for purposes of deducting soil and water conservation expenses.

A specified agricultural or horticultural cooperative is a cooperative to which Part I of subchapter T of the Internal Revenue Code applies that manufactures, produces, grows, or extracts any agricultural or horticultural product, or has marketed agricultural or horticultural products.

**Certain utility business.** Certain utility trades or businesses are not subject to the

section 163(j) limitation. No election is required for this type of trade or business.

The limitation does not apply to a utility's trade or business of furnishing or sale of:

- Electrical energy, water, or sewage disposal services;
- Gas or steam through a local distribution system; or
- Transportation of gas or steam by pipeline.

The rates for furnishing or sale must be established or approved by a state or political subdivision thereof, by any agency or instrumentality of the United States, by a public service or public utility commission or other similar body of any state or political subdivision thereof, or by the governing or rate-making body of an electric cooperative.

**Interest.** In general, interest is any amount that is paid, received, or accrued as compensation for the use or forbearance of money or that is treated as interest under the Internal Revenue Code or the regulations thereunder. For purposes of section 163(j), interest also includes certain amounts that are closely related to interest and that affect the economic yield or cost of funds of a transaction involving interest, such as income, deduction, gain, or loss from a transaction used to hedge an interest bearing asset or liability, substitute interest payments, commitment fees, and debt issuance costs. Proposed Regulations section 1.163(j)-1(b)(20) provides additional information on what constitutes interest under section 163(j).

**Business interest income.** Business interest income means the amount of interest includible in the taxpayer's gross income for the tax year which is properly allocable to a trade or business. Business interest income does not include investment income.

See [C corporation business interest expense and income](#), later.

Interest income that is allocable to an excepted trade or business is not treated as business interest income.

**Business interest expense.** Business interest expense means any interest paid or accrued that is properly allocable to a trade or business. Business interest expense does not include investment interest. See [C corporation business interest expense and income](#), later.

Interest expense that is allocable to an excepted trade or business is not treated as business interest expense.

**Adjusted taxable income.** Adjusted taxable income means taxable income of the taxpayer computed without regard to:

- Any item of income, gain, deduction, or loss which is not properly allocable to a trade or business;
- Any business interest income or business interest expense;
- The amount of any net operating loss deduction under section 172;
- The amount of any qualified business income deduction allowed under section 199A;
- For tax years beginning before 2022, any deduction for depreciation, amortization, or depletion attributable to a trade or business; and
- Adjustments described in published guidance.

For purposes of determining adjusted taxable income, taxable income is computed after applying other sections limiting the deductibility of interest, such as sections 263A and 267, as well as basis, at-risk and passive activity loss limitations.



*Any additions or subtractions from taxable income in arriving at adjusted taxable income are limited to the amount by which the item affects taxable income.*

#### **Floor plan financing interest expense.**

Floor plan financing interest expense is not subject to the section 163(j) limitation. Floor plan financing interest expense is interest on debt used to finance the acquisition of motor vehicles held for sale or lease where the debt is secured by the acquired inventory.

**Excess taxable income.** In general, excess taxable income is the amount of a partnership's or S corporation's adjusted taxable income that is in excess of the amount of adjusted taxable income required to support the partnership's or S corporation's business interest expense deduction. This amount is computed by a partnership or an S corporation and is allocated to the partner or shareholder. This amount is used by the partner or shareholder in determining their current year adjusted taxable income.

In some cases, a taxpayer (or a CFC as discussed in Proposed Regulations section 1.163(j)-7(c)) may also have excess taxable income as a shareholder of an applicable CFC. See Proposed Regulations section 1.163(j)-7(d)(2).

#### **Excess business interest income.**

Excess business interest income is the current year business interest income that exceeds current year business interest expense (excluding floor plan financing). This amount is computed by a partnership or an S corporation and is allocated to the partner or shareholder. This amount is used by the partner or shareholder in determining their current year business interest income.

## Special Rules

**Elections.** A taxpayer engaged in a real property trade or business or a farming business may elect not to limit business interest expense under section 163(j) for such trade or business. This is an irrevocable election.

If you make this election, you are required to use the alternative depreciation system (ADS) for certain property. See Pub. 946, How to Depreciate Property. Also, you are not entitled to the special depreciation allowance for that property. For a taxpayer with more than one qualifying business, the election is made with respect to each trade or business.

**Electing real property trade or business.** An [electing real property trade or business](#) must use the alternative depreciation system (ADS) for any nonresidential real property, residential rental property, and qualified improvement property used in its trade or business.

**Electing farming business.** An [electing farming business](#) must use the alternative depreciation system (ADS) for any farming property the taxpayer owns with a recovery period of 10 years or more.

**Safe harbor for Real Estate Investment Trust (REIT).** Under certain circumstances, a REIT is eligible to make an election to be an electing real property trade or business. See Proposed Regulations section 1.163(j)-9.

**How to make the election.** To make an election for a real property trade or business or a farming business, attach an election statement to a timely filed original tax return (including extensions). Once the election is made, it is irrevocable.

The statement must be titled "Section 1.163(j)-9 Election" and must contain the following information for each electing trade or business:

- The taxpayer's name;
- The taxpayer's address;
- The taxpayer's social security number (SSN) or employer identification number (EIN);
- A description of the taxpayer's electing trade or business, including the principal business activity code; and
- A statement that the taxpayer is making an election pursuant to section 163(j)(7) (B) (as an electing real property trade or business) or (C) (as an electing farming business), as applicable.

**Consolidated group's trade or business.** Only the name and taxpayer identification number (TIN) of the agent for the group, as defined in section 1.1502-77, must be provided on the election statement.

**Partnership's trade or business.** An election for a partnership must be made on the partnership's return with respect to any trade or business that the partnership conducts. An election by a partnership does not apply to a trade or business conducted by a partner outside the partnership.

**Taxpayers with both excepted and non-excepted trades or businesses.** Taxpayers must allocate and apportion their interest expense, interest income, and other tax items between excepted and non-excepted trades or businesses, applying the rules under Proposed Regulations section 1.163(j)-10. An asset basis approach generally is used for purposes of allocating interest expense and interest income. In making an allocation under Proposed Regulations section 1.163(j)-10(c), the taxpayer must attach a statement to its timely filed tax return, providing information related to the asset basis and allocation determination as provided in Proposed Regulations section 1.163(j)-10(c)(6)(iii).

**Partnerships.** If a partnership is subject to the section 163(j) limitation, the section 163(j) limitation is applied at the partnership level. If a partnership has deductible business interest expense, such deductible business interest expense is not subject to any further limitation under section 163(j) at the partner level because it is taken into account in determining the nonseparately stated taxable income or loss of the partnership. For all other purposes of the Code, however, deductible business interest expense retains its character as business interest expense at the partner level.

If the partnership has a limitation on business interest expense, the disallowed business interest expense (excess business interest expense) is not carried over by the partnership, but is allocated to the partners.

After completing Form 8990, the partnership must determine how the deductible business interest expense, excess business interest expense, excess taxable income, and excess business interest income are allocated among the partners. The [Worksheets A and B—Determination of Each Partner's Relevant Section 163\(j\) Items](#) can be used to determine the amount of each item allocable to each partner. See Proposed Regulations section 1.163(j)-6(f)(2) for additional information on the allocation.

**Partner.** A partner's excess business interest expense is treated as paid or accrued by the partner in subsequent years to the extent the partner is allocated current year excess taxable income or excess business interest income from the same partnership.

If a partner not subject to the section 163(j) limitation has excess business interest expense and is allocated excess taxable income or excess business interest income in a subsequent year, the partner would file Form 8990 and the amount of excess business interest expense treated as paid or accrued in the current year would not be subject to further limitation under section 163(j).

A partner subject to the section 163(j) limitation will include the amount of excess business interest expense treated as paid or accrued in figuring its current year business interest expense limitation.

If both a partnership and a partner are subject to the section 163(j) limitation, the partner's current year business interest expense limitation computation will include the following amounts from each of its partnerships.

- Current year excess taxable income,
- Excess business interest expense treated as paid or accrued, and
- Current year excess business interest income.

These amounts will not include items from an excepted trade or business.

If a partner is subject to the section 163(j) limitation and the partnership is not, see [Ownership of pass-through entities not subject to the section 163\(j\) limitation](#), later.

In the event a partner sells a partnership interest and the partnership in which the interest is being sold owns only non-excepted trade or business assets, the gain or loss on the sale of the partnership interest is included in the partner's adjusted taxable income. If the partnership interest consists of both excepted and non-excepted assets, the partner may use the method set forth in Proposed Regulations section 1.163(j)-10(c) in order to determine the amount properly allocable to a non-excepted trade or business, and therefore, properly includible in the partner's adjusted taxable income.

**S corporation.** The section 163(j) limitation is applied at the S corporation level. Disallowed business interest expense is carried over by the S corporation and is treated as business interest expense paid or accrued in the following year.

For a shareholder subject to the section 163(j) limitation, the shareholder's current year section 163(j) limitation computation will include the following amounts from each of its S corporations:

- Current year excess taxable income, and
- Current year excess business interest income.

These amounts will not include items from an excepted trade or business.

**Ownership of pass-through entities not subject to the section 163(j) limitation.** If you are subject to the section 163(j) limitation and are an owner of a pass-through entity that is not subject to the section 163(j) limitation, you must include your share of the pass-through business interest expense, adjusted taxable income, and business interest income on lines 1, 13, and 23, respectively. You must request the pass-through entity to separately state, in sufficient detail, the items necessary to figure these amounts.

In the event a partnership allocates excess business interest expense to one or more of its partners, and in a later tax year the partnership is no longer subject to the section 163(j) limitation, the excess business interest expense from the prior year is treated as business interest expense paid or accrued by the partner in the later year.

**C corporation business interest expense and income.** Solely for purposes of section 163(j), all interest paid or accrued (or treated as paid or accrued) by a C corporation is business interest expense, and all interest includible in gross income by a C corporation is business interest income, except to the extent such interest expense or interest income is allocable to an excepted trade or business.

Any investment interest expense, investment interest income, or investment expenses that a partnership pays, receives, or accrues and allocates to a C corporation partner is treated by the C corporation as properly allocable to a trade or business of that partner.

Current year business interest expense is deducted before disallowed business interest expense carryforwards, which are then deducted in the order of the year in which they were incurred, starting with the earliest year, subject to certain limitations.

**Consolidated group.** A consolidated group has a single section 163(j) limitation. For members entering or leaving the group, see Proposed Regulations section 1.163(j)-5 for applicable limitations.

**Intercompany obligations.** All intercompany obligations as defined in Regulations section 1.1502-13(g)(2)(ii) are disregarded for purposes of determining a member's business interest expense and business interest income and in figuring the consolidated group's adjusted taxable income.

**Tax-exempt corporations with unrelated business income (UBI).** The rule for C corporation interest expense and income applies to a corporation that is subject to the unrelated business income

tax under section 511 only with respect to that corporation's items of income, gain, deduction, or loss that are taken into account in computing the corporation's unrelated business taxable income, as defined in section 512.

**Regulated Investment Companies (RICs) and Real Estate Investment Trusts (REITs).** For special rules for determining adjusted taxable income for RICs and REITs, see Proposed Regulations section 1.163(j)-4(b)(4). For a safe harbor for REITs making an election to be an electing real property trade or business, see Proposed Regulations section 1.163(j)-9.

**Foreign persons with effectively connected income (ECI).** A nonresident alien individual or foreign corporation that is not an applicable CFC that has effectively connected income (ECI) is subject to the section 163(j) limitation. As foreign persons are only taxed on their ECI, adjusted taxable income, business interest expense, business interest income, and floor plan financing interest expense are modified to limit such amounts to income which is ECI and expenses properly allocable to ECI.

A foreign corporation that has ECI must first determine its business interest expense allocable to ECI under Regulations section 1.882-5 before applying section 163(j).

**Controlled foreign corporations.** Section 163(j) generally applies to determine the deductibility of an applicable CFC's business interest expense deduction for purposes of computing its taxable income (determined under Regulations section 1.952-2 or the rules of section 882) in the same manner as a domestic C corporation. Alternatively, a U.S. shareholder of a CFC may make a group election to compute the deduction for business interest expense. See Proposed Regulations section 1.163(j)-7(b) and (c). An applicable CFC means a foreign corporation described in section 957, but only if the foreign corporation has at least one U.S. shareholder that owns (within the meaning of section 958(a)) stock of the foreign corporation.

**U. S. shareholder of an applicable CFC.** A U.S. shareholder will need to modify its adjusted taxable income for income inclusions under sections 78, 951(a) or 951A(a) and deductions allowable under section 250 that are properly allocable to a non-excepted trade or business. Additionally, if a CFC group election has been made, a U.S. shareholder will increase its adjusted taxable income by any excess taxable income of the CFC group. See Proposed Regulations section 1.163(j)-7(d).

**Change in adjusted taxable income computation.** After 2021, adjusted taxable income is computed with deductions for depreciation, amortization, depletion, and any other deduction prescribed in published guidance.

## Specific Instructions

### Part I—Computation of Allowable Business Interest Expense

Complete Part I to determine your allowable business interest expense deduction.

If you are a taxpayer that owns an interest in a partnership subject to the section 163(j) limitation, see instructions to Schedule A before completing Part I.

If you are a taxpayer that is a shareholder in an S corporation or applicable CFC subject to the section 163(j) limitation, see instructions to Schedule B before completing Part I.

### Section I—Business Interest Expense (Lines 1 Through 5)

**Line 1. Current year business interest expense.** Enter the [business interest expense](#) (not including [floor plan financing interest expense](#) or disallowed business interest expense carryforwards from prior years) that would have been deductible in the current year without the application of section 163(j).

Interest expense from an excepted trade or business should not be included.

See [Ownership of pass-through entities not subject to the section 163\(j\) limitation](#), earlier.

If a CFC group election has been made, enter the amount of the CFC's allocable share of business interest expense as provided in Proposed Regulations section 1.163(j)-7(b)(3).

**Line 2. Disallowed business interest expense carryovers from prior years.** Enter the prior year disallowed interest expense under prior section 163(j)(1)(A) for the last tax year beginning before 2018, to the extent the amounts otherwise qualify as business interest expense of the taxpayer. See Proposed Regulations section 1.163(j)-11(b) for more information.



*Line 2 does not apply to partnerships.*

**Line 4. Floor plan financing interest expense.** Enter the current year [floor plan financing interest expense](#).

### Section II—Adjusted Taxable Income (Lines 6 Through 22)

Enter all numbers as positive amounts unless otherwise indicated.

#### Taxable Income

**Line 6. Taxable income.** Enter taxable income computed as though all of the business interest expense is otherwise allowable business interest expense. In figuring taxable income, consider all other applicable limitations such as sections 163(f), 267, basis (sections 704 and 1366), at-risk (section 465) and passive activity loss (section 469), and excess business loss (section 461(l)) limitations prior to inputting the taxable income amount.

The taxable income of a partnership or S corporation shall include both separately and non-separately stated items. For a partnership, this generally will be the amount on Form 1065, Analysis of Net Income (Loss), line 1, Net income (loss). For an S corporation, this generally will be the amount on Form 1120S, Schedule K, line 18, Income/loss reconciliation.

For purposes of computing a partnership's and partner's adjusted taxable income, the partnership (not the partner) takes into account items resulting from adjustments to property under section 734(b). See Proposed Regulations section 1.163(j)-6(d)(2). However, for purposes of computing adjusted taxable income or items resulting from adjustments to property under section 743(b), the partner (not the partnership) takes into account such items. See Proposed Regulations section 1.163(j)-6(o) Ex. 8 (iv). These adjustments are entered on line 13 (or line 20) of the Form 8990.

#### Additions (Lines 7 Through 16)

Add back to taxable income certain adjustments to arrive at adjusted taxable income. Do not include amounts that were not taken into account in taxable income on line 6. See [Adjusted taxable income](#) defined earlier.

#### Line 7. Any item of loss or deduction which is not properly allocable to a trade or business of the taxpayer.

Enter any item of loss or deduction that is not properly allocable to a trade or business of the taxpayer, including the taxpayer's loss or deduction from any excepted trades or businesses. The amount of the addition is limited to the amount the additional item affected taxable income.

For example, a personal casualty loss is not allocable to a trade or business of a taxpayer which would be entered on line 7

as a positive amount to the extent the casualty loss offset taxable income.

Do not include amounts from pass-through entities, which will be entered on line 12.

**Line 8. Any business interest expense not from a pass-through entity.** Add to taxable income all business interest expense, to the extent included in taxable income, that is not from a pass-through entity.

**Line 9. Amount of any net operating loss deduction under section 172.** Enter amount of any net operating loss deduction carried forward or carried back to the current tax year under section 172.

**Line 10. Amount of any qualified business income deduction allowed under section 199A.** Enter amount of any qualified business income deduction allowed under section 199A.

**Line 11. Deduction allowable for depreciation, amortization, or depletion attributable to a trade or business.** Enter amounts allowable for depreciation, amortization, or depletion attributable to a trade or business.

Do not include amounts from pass-through entities, which will be entered on line 12.

 *For tax years beginning after 2021, do not add back the deductions for depreciation, amortization, or depletion attributable to a trade or business.*

**Line 12. Amount of any loss or deduction items from a pass-through entity.** Enter any amount of loss or deduction items from pass-through entities (regardless of whether the entity is subject to the section 163(j) limitation).

**Line 13. Other additions.** A taxpayer subject to the section 163(j) limitation who has an interest in a pass-through entity not subject to the section 163(j) limitation should include their share of the entity's adjusted taxable income in other additions. See [Ownership of pass-through entities not subject to the section 163\(j\) limitation](#), earlier.

A C corporation should include investment income from a pass-through entity as other additions. See [C corporation business interest expense and income](#), earlier.

Also include any other additions described in published guidance. If none, leave blank.

**Line 15. Total current year S corporation shareholder's excess taxable income.** Enter amount of any S corporation excess taxable income reported on Schedule B, line 46, column (c). Also include on this line the amount of excess

taxable income a shareholder receives from a CFC determined under Proposed Regulations sections 1.163(j)-7(c) and (d).

## Reductions (Lines 17 Through 21)

Subtract from taxable income certain adjustments to arrive at adjusted taxable income. Do not include amounts that were not taken into account in taxable income on line 6. See [Adjusted taxable income](#) defined earlier.

### Line 17. Any item of income or gain which is not properly allocable to a trade or business of the taxpayer.

Enter any item of income or gain which is not properly allocable to a trade or business of the taxpayer, including the taxpayer's income or gain from any excepted trade(s) or business(es).

For example, a gain from the sale of a personal residence would be entered on line 17 because it is not a gain allocable to a trade or business of the taxpayer.

Do not include amounts from pass-through entities, which will be entered on line 19.

**Line 18. Any business interest income not from a pass-through entity.** Enter all business interest income, to the extent included in taxable income on line 6, that is not from a pass-through entity (regardless of whether the entity is subject to the section 163(j) limitation).

**Line 19. Amount of any income or gain items from a pass-through entity.** Enter amount of any income or gain items from pass-through entities.

**Line 20. Other reductions.** Include floor plan financing interest expense.

Also include any other reductions described in published guidance. If none, leave blank.

A C corporation should include investment interest expenses from a pass-through entity as other reduction. See [C corporation business interest expense and income](#), earlier.

Enter the amount of income from a CFC as specified in Proposed Regulations section 1.163(j)-7(d)(1).

## Section III—Business Interest Income (Lines 23 Through 25)

**Line 23. Current year business interest income.** Enter the amount of business interest income directly paid to or accrued by the taxpayer, as well as business interest income allocated from a pass-through entity not subject to the section 163(j) limitation.

See [Ownership of pass-through entities not subject to the section 163\(j\) limitation](#), earlier.

## Section IV—163(j) Limitation Calculations (Lines 26 Through 31)

### Limitation on Business Interest Expense

**Line 26. 30% of adjusted taxable income.** For a partnership or S corporation, if line 26 is zero, enter -0- on lines 35 and 40.

### Allowable Interest Expense

**Line 30. Total current year business interest expense deduction.** A taxpayer subject to the section 163(j) limitation will enter the smaller of line 29 or line 5. line 30 is the amount of current year business interest expense deduction allowed after considering the section 163(j) limitation.

If a partner is not subject to the section 163(j) limitation and has partnership excess business interest expense treated as paid or accrued in the current year, enter the amount from Schedule A, line 44, column (h). The amount will not be subject to further limitation under section 163(j).

If the amount on line 29 is less than the amount on line 5 and business interest expense is reported on more than one location on the return (such as ordinary business interest expense and farming interest expense), then the disallowed business interest expense must be allocated to each source in proportion to the total amount of business interest expense from each source. Attach a schedule to Form 8990 which indicates the amount and line item on the tax return where the business interest expense is being deducted.

### Carryforward

**Line 31. Disallowed business interest expense.** Subtract line 29 from line 5. If zero or less, enter -0-.

**Note.** The amount on line 31 is used on the taxpayer's next year's Form 8990, line 2 (except for partnerships). If the taxpayer completing this form is a partnership, carry the amount on line 31 to Part II, line 32, of the current year Form 8990.

## Part II—Partnership Pass-Through Items

Part II is completed by a partnership that is subject to section 163(j) and is required to file Form 8990. The partnership items are allocated to the partners and are not carried forward by the partnership.

See the Instructions for Form 1065 for how the partnership reports the excess business interest expense, excess taxable income, and the excess business interest income to the partners.

See [Ownership of pass-through entities not subject to the section 163\(j\) limitation](#), earlier.

## Part III—S Corporation Pass-Through Items

Part III is completed by an S corporation that is subject to the section 163(j) limitation. The S corporation's excess taxable income and excess business interest income are allocated to the shareholders pro rata after the S corporation's section 163(j) limitation is determined and are not carried forward by the S corporation.

See the Instructions for Form 1120S for how to report the excess taxable income and the excess business interest income to the shareholders.

## Schedule A—Summary of Partner's Section 163(j) Excess Items

Any taxpayer that is required to complete Part I and is a partner in a partnership that is subject to the section 163(j) limitation must complete Schedule A before completing Part I. For foreign persons with an interest in a partnership engaged in a U.S. trade or business, the amount of excess items is limited by ECI. See Proposed Regulations section 1.163(j)-8(c) for additional information.

On line 43, enter the amount of current year excess business interest expense in column (c), current year excess taxable income in column (f), and the current year business interest income in column (g), reported to the partner on Schedule K-1 for each partnership.

**Line 43, column (d). Prior year carry-over.** From the prior year's Form 8990, enter the amount from line 43, column (i).

**Line 43, column (h). Excess business interest expense treated as paid or accrued.** Enter the lesser of:

- The total excess business interest expense amount in column (e), or
- The current year excess taxable income in column (f) plus the current year excess business interest income in column (g) from the same partnership.

**Line 44, column (f). Total current year excess taxable income.** If the partner is subject to the section 163(j) limitation, add the amounts entered on line 43, column (f), for all partnerships listed. Enter this total amount on Part I, line 14.

**Line 44, column (g). Total current year excess business interest income.** For

the partners subject to the section 163(j) limitation, add the amounts entered on line 43, column (g), for all partnerships listed. Enter this total amount on Part I, line 24.

**Line 44, column (h). Total excess business interest expense treated as paid or accrued.** For the partners subject to the section 163(j) limitation, add the amounts entered on line 43, column (h), for all partnerships listed. Enter this total amount on Part I, line 3. For partners not subject to the section 163(j) limitation, include this amount on Part I, line 30.

## Schedule B—Summary of S Corporation Shareholder’s Excess Taxable Income and Excess Business Interest Income

Any taxpayer that is required to complete Part I and is a shareholder in an S corporation that is subject to the section 163(j) limitation must complete Schedule B before completing Part I.

On line 45, enter the amount of current year excess taxable income in column (c) and current year excess business interest income in column (d), reported to the shareholder on Schedule K-1 for each S corporation.

If a CFC group election has been made, enter on line 45(c) the amount of excess taxable income of the CFC.

**Line 46, column (c). Total current year excess taxable income.** Add the amounts entered on line 45, column (c), for all S corporations listed. Enter this total amount on Part I, line 15.

**Line 46, column (d). Total current year excess business interest income.** Add the amounts entered on line 45, column (d), for all S corporations listed. Enter this total amount on Part I, line 24.

## Worksheets A and B—Determination of Each Partner’s Relevant Section 163(j) Items

The Proposed Regulations provide guidance regarding how a partnership subject to the section 163(j) limitation must allocate its deductible business interest expense and section 163(j) excess items, if any, among its partners. See Proposed Regulations section 1.163(j)-6(f). The partnership should use Worksheets A and B in these instructions and is responsible for keeping records that compute the allocation.

Lines 1 through 7 of Worksheet A are taken from the partnership’s Form 8990, which it must complete first. Lines 8 through 10 reflect the manner in which the partnership allocated its adjusted taxable income, business interest income, and business interest expense to its partners. Only items that were taken into account in lines 1 through 3 are taken into account in

lines 8 through 10. As a result, section 743(b) adjustments, section 704(c) remedial allocations, allocations of investment income and expense, and amounts determined for the partner under Regulations section 1.882-5 are not taken into account in lines 8 through 10. See Proposed Regulations section 1.163(j)-6(f)(2)(ii) for the definitions of “allocable adjusted taxable income” (line 8), “allocable business interest income” (line 9), and “allocable business interest expense” (line 10). All of the information necessary to complete the rest of Worksheets A and B is contained in lines 1 through 10. See the Instructions for Form 1065 for how the partnership reports the excess business interest expense, excess taxable income, and the excess business interest income to the partners.

The calculation in Proposed Regulations section 1.163(j)-6(f)(2)(i) through (xi) are solely for the purpose of determining each partner’s allocable share of deductible business interest expense, excess business interest expense, excess taxable income, and excess business interest income. Accordingly, no rule set forth in Proposed Regulations section 1.163(j)-6(f)(2) prohibits a partnership from making an allocation to a partner that is otherwise permitted under section 704 and the regulations thereunder.

## Average Annual Gross Receipts Worksheet Per Section 448(c)

	Column A 1st preceding tax year	Column B 2nd preceding tax year	Column C 3rd preceding tax year
1. Annual gross receipts	\$	\$	\$
2. Plus annual gross receipts of related entities per aggregate rules	\$	\$	\$
3. Total annual gross receipts	\$	\$	\$
4. Average annual gross receipts (line 3 columns A+B+C divided by 3)	\$	\$	\$

**Determination of Each Partner's Relevant Section 163(j) Items—Worksheet A**

<b>Before you begin:</b> ✓ Complete Form 8990 before beginning this worksheet.				
✓ This worksheet provides space for up to three partners. If there are more than three partners, use more than one worksheet. The total column should reconcile to amounts for all partners.				
	<b>Partner 1</b>	<b>Partner 2</b>	<b>Partner 3</b>	<b>Total</b>
<b>Step 1: Partnership-level calculation required by section 163(j)(4)(A).</b>				
1. Partnership's Adjusted Taxable Income (ATI). (Form 8990, line 22) . . . . .				
2. Partnership's business interest income. (Form 8990, line 25) . . . . .				
3. Partnership's business interest expense. (Form 8990, subtract line 4 from line 5) . . . . .				
4. Partnership's deductible business interest expense. (Form 8990, subtract line 4 from line 30) . . . . .				
5. Partnership's excess business interest expense. (Form 8990, line 32)				
6. Partnership's excess taxable income. (Form 8990, line 36) . . . . .				
7. Partnership's excess business interest income. (Form 8990, line 37)				
<b>Step 2: Determine each partner's relevant section 163(j) items.</b>				
8. Partner's allocable ATI. See instructions . . . . .				
9. Partner's allocable business interest income. See instructions				
10. Partner's allocable business interest expense. See instructions				
<b>Step 3: Partner-level comparison of business interest income and business interest expense.</b>				
11. Subtract line 10 from line 9. (If zero or less, enter -0-.) . . . . .				
12. Subtract line 9 from line 10. (If zero or less, enter -0-.) . . . . .				
<b>Step 4: Matching partnership and aggregate partner excess business interest income.</b>				
13. Divide line 11 by line 11 total column amount. (If the total column equals zero, enter -0-.) . . . . .	%	%	%	%
14. Multiply line 13 by line 12 total column amount . . . . .				
15. Subtract line 14 from line 11. (If zero or less, enter -0-.) . . . . .				
<b>Step 5: Remaining business interest expense determination.</b>				
16. Divide line 12 by line 12 total column amount. (If the total column equals zero, enter -0-.) . . . . .	%	%	%	%
17. Multiply line 16 by line 11 total column amount . . . . .				
18. Subtract line 17 from line 12. (If zero or less, enter -0-.) . . . . .				
<b>Step 6: Determination of final allocable ATI.</b>				
19. If line 8 is greater than or equal to \$0, enter line 8. Otherwise, enter -0- . . . . .				
20. If line 8 is less than \$0, enter the absolute value of line 8. Otherwise, enter -0- . . . . .				
21. Divide line 19 by line 19 total column amount. (If the total column equals zero, enter -0-.) . . . . .	%	%	%	%
22. Multiply line 21 by line 20 total column amount . . . . .				
23. Subtract line 22 from line 19. (If zero or less, enter -0-.) . . . . .				
<b>Step 7: Partner-level comparison of 30% of ATI and remaining business interest expense.</b>				
24. Multiply line 23 by 30% (0.30) . . . . .				
25. Subtract line 18 from line 24. (If zero or less, enter -0-.) . . . . .				
26. Subtract line 24 from line 18. (If zero or less, enter -0-.) . . . . .				

**Determination of Each Partner's Relevant  
Section 163(j) Items—Worksheet A—Continued**

Keep for Your Records



	Partner 1	Partner 2	Partner 3	Total
<b>Step 8: Partner priority right to ATI capacity excess determination.</b>				
27a. Is line 5 total column amount greater than zero? <input type="checkbox"/> Yes <input type="checkbox"/> No				
27b. Is line 20 total column amount greater than zero? <input type="checkbox"/> Yes <input type="checkbox"/> No				
27c. Is line 26 total column amount greater than zero? <input type="checkbox"/> Yes <input type="checkbox"/> No				
27d. Are lines 27(a), 27(b), and 27(c) all "Yes"? <input type="checkbox"/> Yes <input type="checkbox"/> No				
28. If line 27d is "No," enter line 25. Otherwise, complete Worksheet B . . . . .				
29. If line 27d is "No," enter line 26. Otherwise, complete Worksheet B . . . . .				
30. If line 27d is "No," enter -0-. Otherwise, complete Worksheet B				

<b>Step 9: Matching partnership and aggregate partner excess taxable income.</b>				
31. Divide line 28 by line 28 total column amount. (If the total column equals zero, enter -0-.)	%	%	%	%
32. Multiply line 31 by line 29 total column amount . . . . .				
33. Subtract line 32 from line 28. (If zero or less, enter -0-.)				

<b>Step 10: Match partnership and aggregate partner excess business interest expense.</b>				
34. Divide line 29 by line 29 total column amount. (If the total column equals zero, enter -0-.)	%	%	%	%
35. Multiply line 34 by line 28 total column amount . . . . .				
36. If line 30 is greater than zero, enter line 30. Otherwise, subtract line 35 from line 29. (If zero or less, enter -0-.)				

<b>Step 11: Final section 163(j) excess item and deductible business interest expense allocation.</b>				
37. Partner's deductible business interest expense. Subtract line 36 from line 10 . . . . .				
38. Partner's excess business interest expense. Enter line 36 . .				
39. Partner's excess taxable income. Multiply line 33 by (10/3) .				
40. Partner's excess business interest income. Enter line 15 . .				

**Note.**

- Line 3: Equals the partnership's business interest expense, not taking into account floor plan financing interest expense. From the Form 8990, subtract line 4 from line 5.
- Line 4: Equals the partnership's deductible business interest expense, not taking into account floor plan financing interest expense. From the Form 8990, subtract line 4 from line 30.
- Line 8: Equals "allocable ATI" as defined in Proposed Regulations section 1.163(j)-6(f)(2)(ii).
- Line 9: Equals "allocable business interest income" as defined in Proposed Regulations section 1.163(j)-6(f)(2)(ii). Total column amount must equal line 2 total column amount.
- Line 10: Equals "allocable interest expense" as defined in Proposed Regulations section 1.163(j)-6(f)(2)(ii). Line 10 total column amount must equal line 3 total column amount.
- Line 23: Line 23 total column amount must equal line 1 total column amount.
- Line 27d: If line 27d is "Yes," the partnership must complete Worksheet B (in order to get the correct values for lines 28–30) before proceeding to line 31 of Worksheet A.
- Line 37: Line 37 total column amount must equal line 4 total column amount.
- Line 38: Line 38 total column amount must equal line 5 total column amount.
- Line 39: Line 39 total column amount must equal line 6 total column amount.
- Line 40: Line 40 total column amount must equal line 7 total column amount.
- Lines 13, 16, 21, 31, and 34 total column amount must equal 100% or 0.

**Determination of Each Partner's Relevant Section 163(j) Items—Worksheet B**

**Before you begin:** ✓ Complete “Determination of Each Partner’s Relevant Section 163(j) Items—Worksheet A” before beginning this worksheet.  
 ✓ This worksheet provides space for up to three partners. If there are more than three partners, use more than one worksheet. The total column should reconcile to amounts for all partners.

**Step 8A: Who must complete this worksheet.**

1. If the answer to line 27d of Worksheet A is “Yes,” complete this worksheet.

	Partner 1	Partner 2	Partner 3	Total
--	-----------	-----------	-----------	-------

**Step 8B: Determine whether to perform Step 8C or Step 8D.**

2. Subtract line 23 of Worksheet A from line 19 of Worksheet A . . . . .				
3. Multiply line 2 of Worksheet B by 30% (0.30) . . . . .				
4. If line 26 of Worksheet A is greater than zero, enter line 3 of Worksheet B. Otherwise, enter -0- . . . . .				
5. Enter the smaller of line 4 of Worksheet B or line 26 of Worksheet A . . . . .				
6. If line 25 total column amount of Worksheet A is greater than or equal to line 5 total column amount of Worksheet B, complete Step 8C of Worksheet B. If line 5 total column amount of Worksheet B is greater than line 25 total column amount of Worksheet A, complete Step 8D of Worksheet B.				

**Step 8C: Calculate lines 28, 29, and 30 of Worksheet A. Return to and complete Worksheet A after Step 8C.**

7. Divide line 25 of Worksheet A by line 25 total column amount of Worksheet A. (If line 25 total column amount of Worksheet A equals zero, enter -0-.) . . . . .				
8. Multiply line 7 of Worksheet B by line 5 total column amount of Worksheet B . . . . .				
9. Subtract line 8 of Worksheet B from line 25 of Worksheet A. Enter amount(s) on line 28 of Worksheet A . . . . .				
10. Subtract line 5 of Worksheet B from line 26 of Worksheet A. Enter amount(s) on line 29 of Worksheet A . . . . .				
11. Enter -0- on line 30 of Worksheet A				

**Step 8D: Calculate lines 28, 29, and 30 of Worksheet A. Return to and complete Worksheet A after Step 8D.**

12. Divide line 4 of Worksheet B by line 4 total column amount of Worksheet B. (If line 4 total column amount of Worksheet B equals zero, enter -0-.) . . . . .				
13. Multiply line 12 of Worksheet B by line 25 total column amount of Worksheet A . . . . .				
14. If line 4 of Worksheet B is greater than zero, enter line 26 of Worksheet A. Otherwise, enter -0- . . . . .				
15. Subtract line 14 of Worksheet B from line 13 of Worksheet B. (If zero or less, enter -0-.) Enter amount(s) on line 28 of Worksheet A . . . . .				
16. Subtract line 13 of Worksheet B from line 14 of Worksheet B. (If zero or less, enter -0-.) Enter amount(s) on line 29 of Worksheet A . . . . .				
17. If line 4 of Worksheet B equals zero, enter line 26 of Worksheet A. Otherwise, enter -0-. Enter amount(s) on line 30 of Worksheet A . . . . .				

---

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act

unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for business taxpayers filing this form is

approved under OMB control number 1545-0123 and is included in the estimates shown in the instructions for their business income tax return.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

---