ACCRUED INTEREST
(Return to Partnership Audit Technique Guide – Chapter 8)

**TAXPAYER STILL OWNS PROPERTY**

- IRC § 461(h) - “all events test"
- Final Treas. Reg. § 1.108-6
- Current year accrued interest disallowed on "old" debt
- Current year interest expense deduction based on restructured ("new") debt
- Add prior year accumulated accrued interest to principal balance for IRC § 108 purposes.

**TAXPAYER DISPOSED/SOLD PROPERTY**

**RE COURSE**

- Verify the extent of guarantor's liability
- Current year accrued interest expense deduction allowed
- No COD if lender enforces guaranty (i.e., makes guarantor pay)
- COD to guarantor or GP if liability settled for less than face amount
- Difference between face amount of liability and sales price = COD

**NONRE COURSE**

- Current year accrued interest not allowed under IRC § 461(h)
- Prior year accumulated accrued interest s/b recaptured as ord. Income under IRC § 111 to extent of Tufts gain (loan bal.+accrued interest-adj. basis)
- If debt is w/new lender or 3rd party guarantor/insurer, can raise IRC § 111 issue. Except 8th Circuit, see Allan.