

163(j)(4)(C): Excess Taxable Income

Summary: A partner treats previously allocated excess business interest expense as paid or accrued to the extent of allocated excess taxable income (ETI) from the partnership.

$$\text{ETI}^a = \text{Adjusted Taxable Income (ATI)}^b \times \left[\begin{array}{l} 0.3 \times \text{ATI} \\ - \left(\text{Business Interest Expense}^c - \text{Floor Plan Financing Interest Expense}^d \right) \\ - \text{Business Interest Income}^e \end{array} \right]$$

Color Key:

- Solution
- Formula component
- Repeating formula component

Notes and sources:

^a [§163\(j\)\(4\)\(C\)](#); Reg. [§1.163\(j\)-1\(b\)\(17\)](#). For further discussion, see [536 T.M.](#), *Interest Expense Deductions*, at [V.E.8](#).

^b ATI is the partnership's adjusted taxable income. See [§163\(j\)\(8\)](#); Reg. [§1.163\(j\)-1\(b\)\(1\)](#).

^c Business interest expense means interest expense that is properly allocable to a non-excepted trade or business or that is floor plan financing interest expense. Business interest expense also includes disallowed business interest expense carryforwards. It does not include amounts of interest expense carried forward to the taxable year from a prior taxable year due to the application of the at-risk rules or the passive activity rules, which apply after the application of [§163\(j\)](#). Reg. [§1.163\(j\)-1\(b\)\(3\)](#). It does not include investment interest. [§163\(j\)\(5\)](#).

^d Floor plan financing interest expense means interest paid or accrued on floor plan financing indebtedness. All floor plan financing interest expense is treated as business interest expense. Reg. [§1.163\(j\)-1\(b\)\(19\)](#).

^e Business interest income is the amount of interest includible in the taxpayer's gross income which is properly allocable to a non-excepted trade or business. It does not include investment interest. [§163\(j\)\(6\)](#); Reg. [§1.163\(j\)-1\(b\)\(4\)](#).

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