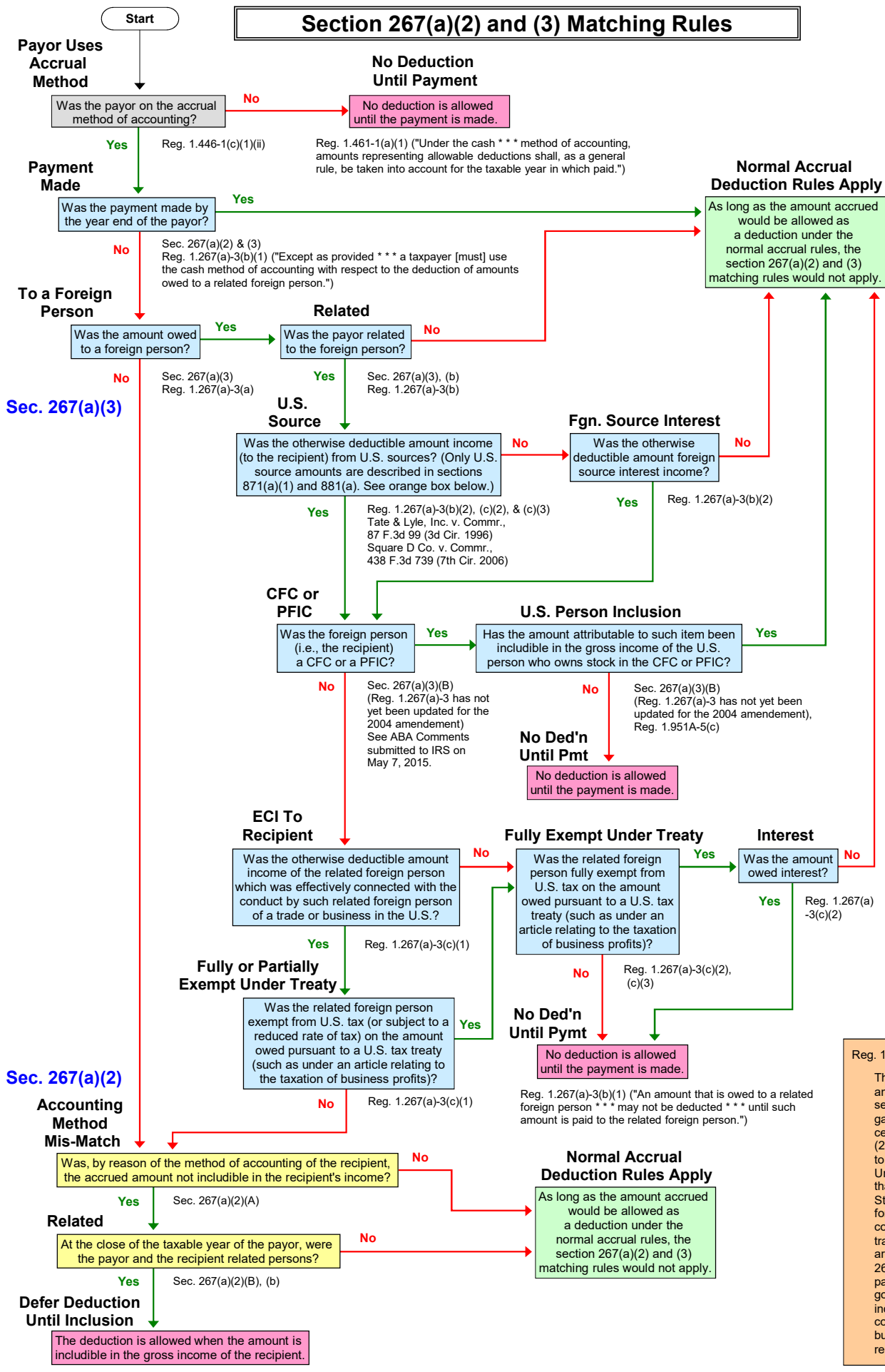


# Section 267(a)(2) and (3) Matching Rules



**Disclaimer**  
This flowchart has been extensively reviewed to be as complete and accurate as possible. However, due to the complexity of these rules, this flowchart undoubtedly includes errors and omissions. You should consult a tax professional for individual advice regarding your own situation. This flowchart is not updated for changes in the tax laws and should not be relied upon for any purpose whatsoever.

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Reg. 1.267(a)-1(b), dealing with unpaid expenses and interest, was promulgated in 1958. Section 267(a)(2) was substantially changed in 1984. Consequently, Reg. 1.267(a)-1(b) is no longer up to date.

Reg. 1.267(a)-2T(b) was promulgated in 1984, just after the amendment to Section 267(a)(2). This regulation, in question and answer format, provides guidance with respect to: the completed contract method, original issue discount, unstated interest under section 483, cost recovery, depreciation, or amortization, and ceasing to be a related person.

Section 267(a)(2) three times refers to "the person to whom the payment is to be made." For simplicity, this chart refers to this person as the "recipient."

This chart does not address the loss disallowance rules under Section 267(a)(1) and the regulations thereunder.

See U.S. Source Box Above

Reg. 1.267(a)-3(b)(2) provides in full:  
This section applies to otherwise deductible amounts that are of a type described in section 871(a)(1)(A) [FDAP], (B) [certain gains on timber and coal] or (D) [gains on certain intangibles], or in section 881(a)(1), (2) or (4). The rules of this section also apply to interest that is from sources outside the United States. Amounts other than interest that are from sources outside the United States, and that are not income of a related foreign person effectively connected with the conduct by such related foreign person of a trade or business within the United States, are not subject to the rules of section 267(a)(2) or (3) or this section. See paragraph (c) of this section for rules governing the treatment of amounts that are income of a related foreign person effectively connected with the conduct of a trade or business within the United States by such related foreign person.

Sec. 267(a)(3)

Sec. 267(a)(2)

Sec. 267(a)(2), flush