



*We are pleased to send you this issue of Meaden & Moore's International Tax News and hope you find the content useful. We would appreciate your feedback on our efforts to raise awareness of critical international tax issues.*

*Please send any suggestions or topics you would like us to address to William Harwood at [wharwood@meadenmoore.com](mailto:wharwood@meadenmoore.com) or call us at (216) 928-5411.*

## More Tips on Allocation & Apportionment New Interest Expense Election Can Affect Multinational Companies Far into the Future

Interest expense is just one of the specific items that can cause challenges in the Allocation and Apportionment process. The advantages of accurately assigning this item are similar to those encountered when you properly assign administrative expenses in general.

*Note: Though you may have been satisfied with your elections on Interest Expense in the past, be aware that a recent change to the rules is about to have far-reaching effects on how you should make these decisions in the future.*

In 2004, the legislature amended the regulations to allow corporations a one-time election to allocate interest expense on a true worldwide basis. The election allows the U.S. parent to factor in the interest expense actually incurred at the foreign subsidiary level. Generally, the election will result in a smaller charge to foreign source income, thereby freeing up excess foreign tax credits.

Timing is important. If you make the election, you must make it with the U.S. tax return filed for the first year beginning after December 31, 2008. If you file by calendar year, you must choose to elect or not elect this treatment for your 2009 returns.

Why worry now? January 2009 may seem a long way off, but the tax implications of the choice you make are significant and will affect your business well into the future. So taking time to understand the situation now will benefit you in the long term. Some of the caveats to consider:

- The election to use or not to use the new rules applies to all members and affiliates of a U.S. group that files a consolidated return. This means that every foreign entity owned by the company must be included in the calculation of worldwide interest expense and worldwide assets.
- The election applies to the election year and all subsequent years.
- The election cannot be changed without the consent of the Commissioner of Internal Revenue. You will have to invest in completing a complex and expensive process for petitioning for the change. As the law is currently written, there is no opportunity to re-elect worldwide interest expense allocation at a later time.

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# New Interest Expense Election Can Affect Multinational Companies Far into the Future

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## Beyond the Initial Choice

Because of the pervasive and long-lasting effects your choice will have, it is critical to fully appreciate the overall net effect each of the two available methods will have if applied to your entire worldwide group. While this decision is complicated, you must at the same time revisit your asset valuation elections and consider the complex “CFC netting” rules and other interest limitation rules.

To ensure the best interests of the organization, your decision must also take into account the projected capital structure of the various subsidiaries and affiliated companies in the years following the election year. The choice you make may have a material effect on the overall tax expense of the corporation.

*Note: This election is a one-time only opportunity to change the allocation and apportionment of interest expense.*

## Customized Decision Model Available

Now is the best time to begin studying how the rules operate. The process of evaluating the effects of one choice vs. the other is convoluted and time-consuming.

At Meaden & Moore we’ve developed a highly efficient decision model that we can customize to the particular circumstances of any multinational company structure.

If you would like to discuss how to determine and activate the most advantageous choice for your company, we are happy to conduct a brief, complimentary high-level audit of your circumstances.

**Call Bill Harwood at 216.928.5411, or email at [wharwood@meadenmoore.com](mailto:wharwood@meadenmoore.com)**

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