

May 18, 2019

### ***New Limits on Business Interest Deductions***

The Tax Cuts and Jobs Act included provisions limiting the business deduction for net interest expense. Starting in 2018, the deduction for business interest expense is limited to:

- business interest income for the tax year;
- 30 percent of adjusted taxable income for the year, including any increases in **adjusted taxable income** as a result of a distributive share in partnership or S corporation (discussed below), but not below zero; and
- floor plan financing interest of the taxpayer for the tax year.

In effect, the new law limits the deduction to 30 percent of **adjusted taxable income**. Adjusted taxable income is not the same as taxable income, but rather is determined by a special formula defined in the new law. As an example, for the tax years beginning before January 1, 2022, **adjusted taxable income** does not include deductions for depreciation and amortization.

#### **Exceptions to the limitation**

There are, however, exceptions to this limitation, including an exception for small businesses with average gross receipts of \$25 million or less; and there are special rules for auto dealers and farmers.

#### **Contact Us**

Even though the Tax Cuts and Jobs Act lowered tax rates, the limitation on interest deductions could result in a higher tax liability on business income. Please don't hesitate to contact us to discuss planning opportunities to reduce the impact of the new interest expense deduction limitations on your Federal income tax liability.

#### **MillerSearles LLC**

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