Lowndes

Insights

# CARES Act Eases Limitation on Deducting Business Interest Expenses

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The 2017 Tax Cuts and Jobs Act introduced a new Section 163(j) limitation on taxpayers deducting business interest expense (our prior discussion of this tax law change can be found here). Under this limitation, businesses could generally only deduct net business interest expense in any given year equal to 30% of adjusted taxable income. This provision was intended as a revenue raiser to offset the cost of the tax cuts associated with the Tax Cuts and Jobs Act.

To assist businesses struggling in the current economic environment, the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act enacted last month provides a temporary easing of this deduction limitation.

Specifically, Section 2306 of the CARES Act increases the limitation from 30% of adjusted taxable income to 50% of adjusted taxable income for the 2019 and 2020 tax years, allowing businesses to take a larger interest expense deduction. In the case of partnerships, the increased limitation is only available for the 2020 tax year. This relief is not mandatory, as a taxpayer may elect to continue to apply the 30% limitation if they wish to do so.

In addition to increasing the percentage limitation, the CARES Act also allows taxpayers to elect to use their 2019 adjusted taxable income in calculating their 2020 limitation. This change recognizes that, for the majority of taxpayers, the 2019 adjusted taxable income will be higher than their 2020 adjusted taxable income, and therefore will provide more of a benefit.

Taxpayers who have already filed their 2019 tax returns may want to consult their tax advisors and consider filing an amended return to take advantage of this recent tax change.