BusinessManagement DAILY

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Squeeze under interest deduction cap

Generally, the Tax Cuts and Jobs Act (TCJA) favors businesses, with several exceptions.

Strategy: Watch out for a new deduction limit for business interest. Under the TCJA, this deduction can't exceed 30% of an affected business's adjusted taxable income (ATI).

However, your small business probably qualifies for an exception that avoids the new interest deduction limit.

Here's the whole story: The TCJA limits a business's annual "net interest" deduction to 30% of ATI. The new limit potentially applies to corporate and non-corporate businesses alike. Net interest is defined as the amount of business interest paid or accrued during the year less the amount of business interest income for the year.

For these purposes, ATI is your business's federal taxable income without counting:

- Income, deduction, gain or loss not properly allocable to a business activity
- Business interest income and expense
- Net operating loss (NOL) deductions
- The new deduction for up to 20% of qualified business income from pass-through entities
- For tax years beginning before 2022, allowable deductions for depreciation, amortization or depletion.

Key exception: The new 30%-of-ATI business interest expense limit does not apply to a business with average gross receipts of $25 million or less for the three prior tax years. Thus, your business might dodge the bullet. Other exceptions may be available (e.g., for certain real estate operations and farms).

If you're hit by the business interest limit, at least you can still carry forward the disallowed amount indefinitely until it can be deducted.

Tip: Special rules apply to pass-through entities. See your tax pro.

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