

CARES ACT – Business Interest Expense Changes



Was your business expense deduction limited in 2019?

If yes, we can assist you by amending your income tax returns to allow you to take a larger interest expense deduction resulting in an immediate refund. If your 2019 interest expense deduction was limited and you had taxable income, we can amend your 2019 return to reduce your taxable income and file for a refund. If your 2019 interest expense was limited and you had a loss, we can amend to deduct additional interest expense and carryback the larger deduction up to five years (as far back as 2014) via a Net Operating Loss carryback.

This change to the business interest expense limitation as part of the CARES Act, which allows a business to deduct interest expense of up to 50% of taxable income, only applies to interest incurred or paid in 2019 or 2020. Beginning in 2021, the interest expense limitation will revert to 30% of taxable income.

With the likelihood many businesses will take on more debt during this crisis this change is intended to create liquidity by reducing taxes. With the expectation that many businesses will have lower taxable income in 2020, taxpayers may elect to use their 2019 taxable income in calculating the interest expense limitation for 2020.

The increased interest expense rules work differently for Partnerships. If a Partnership was subject to the interest expense limitation in 2019, the Partnership does not get the same 50% limitation adjustment. Instead the benefit is passed-on to the Partners that were allocated some of the interest expense that was limited. Each Partner's share of the excess business interest created in 2019 will be split into two equal parts. The first 50% will be treated as business interest not subject to any limitation on the 2020 tax return year. The remaining 50% is still subject to the same rules that were in place before the CARES Act and will be carried forward by the Partner until the Partnership that created the carryforward has excess taxable income or excess business interest income to offset the interest expense.

Please contact RDG with your tax related questions. We will review your tax returns and determine how you can take advantage of the significant tax law changes from the CARES Act.