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Interest Deduction Rules Changed for Certain Taxpayers

Under TCJA, a taxpayer's deduction for business interest is limited to the sum of business interest income plus 30 percent of adjusted taxable income for the taxable year. There is an exception to this limitation, however, for certain small taxpayers, certain real estate businesses that make an election to be exempt from this rule, and businesses with floor plan financing, which is a specialized type of financing used by car dealerships, and for certain regulated utilities.

For smaller taxpayers, TCJA exempts from the interest limitation taxpayers with average annual gross receipts for the three-taxable year period ending with the prior taxable year that do not exceed \$25 million. Further, at the taxpayer's election, any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business is not treated as a trade or business for purposes of the limitation, and therefore the limitation does not apply to such trades or businesses.