COVID-19 RESPONSE

CARES ACT MODIFICATIONS TO BUSINESS INTEREST EXPENSE/QIP

MODIFICATIONS TO BUSINESS INTEREST EXPENSE LIMITATION The Tax Cuts and Jobs Act of 2017 (TCJA) enacted a new Section 163(j) limitation on business interest expense for tax years beginning after December 31, 2017 that limited a business's ability to deduct its interest expense to 30% of adjusted taxable income. The CARES Act temporarily modifies this limitation and increases the deductibility to 50% of adjusted taxable income for tax years 2019 and 2020. Additionally, businesses may elect to use their 2019 adjusted taxable income rather than their 2020 adjusted taxable income for purposes of applying the 50% limitation.

Taxpayers filing as partnerships are still required to use the 30% limitation. However, beginning in 2020, partners in partnerships subject to the business interest expense limitation rules will be able to deduct 50% of any excess business interest expense that was allocated to them in 2019. The remaining 50% would remain suspended until the partnership allocates excess taxable income to the partners.

TECHNICAL CORRECTION TO QUALIFIED IMPROVEMENT PROPERTY The CARES Act includes a highly anticipated technical correction to qualified improvement property (QIP). The TCJA intended to classify improvements to the interior portion of nonresidential buildings as 15-year depreciable property eligible for 100% bonus depreciation. Due to drafting errors, the TCJA omitted language to classify QIP as 15-year property and as a result QIP did not meet the requirements for bonus depreciation.

The CARES Act addresses this error and allows taxpayers to apply the 100% bonus depreciation rules to QIP retroactive to January 1, 2018. As such, taxpayers will likely have the option to amend their 2018 and 2019 tax returns to claim the additional depreciation expense.

For taxpayers that made the real property trade or business election, these rules may not apply.

March 28, 2020