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COVID-19 RESPONSE

CARES Act: Modifications to Business Interest Expense

The CARES Act provides a temporary modification to the 2017 Tax Act's limitation on deductions for business interest expenses. The CARES Act increases the deductibility of interest expenses to 50% for tax years beginning in 2019 or 2020. Taxpayers can also elect to calculate their 2020 interest limitation using their 2019 taxable income, to offset revenue losses in 2020 resulting from COVID-19.

If your business files its taxes as a partnership, you should still use the 30% limitation from the 2017 Tax Act. Beginning in 2020, partners in partnerships can deduct 50% of any excess business interest expense allocated to them in 2019. The remaining 50% is suspended until the partnership allocates income to the partners.

Qualified Improvement Property
CARES accounts for a drafting error in the 2017 Tax Act. Under the 2017 rules, QIP was not classified as a 15-year property to meet the requirements for bonus depreciation. CARES now allows taxpayers to apply the 100% bonus depreciation rules to QIP going back to January 1, 2018. Taxpayers can file amended returns to apply this rule to 2018 and 2019 returns.