Interest Expense Deduction Limitation

An entirely new concept introduced to the tax code for businesses is a limitation on the deductibility of interest expense.

Under this new limitation, a company's interest deduction, netted with interest income, for any year can't exceed 30% of the company's "adjusted" net income.

*Fortunately for **Auto Dealers**, NADA and other industry leaders were able to obtain an **exception for floor plan financing for Auto Dealers** and avoid a potentially devastating tax blow. As a result of this exception for floor plan financing, most auto dealers will likely avoid the interest expense limitation unless they have a combination of low income and high interest expense for loans other than floor plan such as working capital, blue sky, related party/owner and mortgage loans.*

*Relief for small dealerships and your real estate entities was also provided in the new tax law. There is a **Small Business Exception** that says this interest limitation rule does not apply to an entity with **annual revenues less than $25 million**. This means that most real estate entities that lease the property to the dealerships will not be subject to this limitation assuming annual rents are less than $25 million per year. If you have a larger, consolidated real estate entity, you may want to consider dividing that entity up into smaller pieces.*

If your dealership has low income and interest expense from other loans, then you want to be aware of the details of this limitation. If you are a pass-thru entity, the "adjusted" net income of the dealership will be the taxable income plus net interest expense, plus depreciation and amortization. Your interest expense will be limited to 30% of this amount.

If you wish to discuss the impact of these rules on your particular situation, please email me at *marc@crumbackassociates.com or give me a call at 443-286-7969*