

Interest Expense Computation

Federal Law Limits Interest Expense Deduction

The federal Tax Cuts and Jobs Act amended Section 163(j) of the Internal Revenue Code. For tax years beginning after December 31, 2017, the amendment limits the deduction allowed for business interest expense in a tax year. For tax years beginning on or after January 1, 2020, Tennessee decouples from the Tax Cuts and Jobs Act's amendment of Section 163(j), such that the deduction for business interest expense will not be limited. However, for tax years beginning after December 31, 2017, and before January 1, 2020, Tennessee recognizes the federal limitation on the business interest expense deduction.

Excise Tax Business Interest Expense Limitation for Taxpayers Included in a Federal Consolidated Return

A federal consolidated group has a single Section 163(j) business interest expense limitation. For Tennessee excise tax purposes, each taxpayer generally is considered a separate and single business entity and is required to file its excise tax return on a separate entity basis.

Therefore, for tax years beginning after December 31, 2017, but before January 1, 2020, Tennessee taxpayers that are members of a federal consolidated group should allocate the federal consolidated group's allowed business interest expense deduction among the group members who had business interest expense during the tax year.

The allocation is made on a pro rata basis according to the amount of interest expense that each member paid to entities outside the federal consolidated group.

For excise tax purposes, a member's business interest expense deduction is the sum of its intercompany interest expenses paid or accrued plus its allocation of the group's federal interest expense deduction.

The Department has a [worksheet available](#) for this computation. To complete this worksheet you will need to have:

- The amount of interest deducted on the consolidated federal return
- The amount of the *member's* interest expenses paid to entities outside the federal consolidated group
- The amount of the *consolidated group's* interest expenses paid to entities outside the federal consolidated group, and
- Member's interest expense paid/accrued to affiliates in the federal consolidated group.

Carryforward

Section 163(j) allows a carryforward of unused business interest expense. For tax years beginning after December 31, 2017, but before January 1, 2020, Tennessee taxpayers that are members of a federal consolidated group should allocate the federal consolidated group's carryforward of business interest expense for its 2018 and 2019 tax years in the same manner as described above for allocation of the group's interest expense deduction.

The manner in which such carryforwards can be used pursuant to Section 163(j) in subsequent tax years remains under review by the Department.

For More Information

Visit www.tn.gov/revenue. Click on Revenue Help to search for answers or to submit an information request to one of our agents.

References

Tenn. Code Ann. §§ 67-4-2006(a)(1), 67-4-2007(e)(1);
Public Chapter 1011 (2018), P.L. No. 115-97, Prop.
Treas. Reg. § 1.163(j)-4