

## Interest Expense Carryforward

### Federal Interest Expense Deduction Limitation

The federal Tax Cuts and Jobs Act (the "TCJA") amended Internal Revenue Code Section 163(j) to limit the business interest expense deduction. For tax years beginning after December 31, 2017, and before January 1, 2020, Tennessee recognized this federal limitation. However, for tax years beginning on or after January 1, 2020, Tennessee decoupled from the TCJA amendment of Section 163(j) and the business interest expense deduction is no longer limited.

### Carryforward Allowed for Tennessee Excise Tax Purposes

Section 163(j), as amended by the TCJA, allows taxpayers to carryforward the business interest expense deduction limited by the amendment.

For tax years beginning on or after January 1, 2020, a Taxpayer may deduct the 2018 and 2019 carryforwards to the extent they are deducted for federal income tax purposes. The carryforward is limited in the same manner it is for federal income tax purposes under Section 163(j), as amended by the TCJA. The 2018 and 2019 carryforward amount(s) deducted for federal income tax purposes will be included on Schedule J, Line 27a, of the franchise and excise tax return along with the current year's business interest expense.

For audit purposes, Taxpayers should maintain in their records information sufficient to verify the 2018 and/or 2019 carryforward amount(s) taken, including but not limited to: total interest expense before the 163(j) limitation, interest expense deducted under the 163(j) limitation, carryforward available at the beginning of the 2020 tax year, carryforward deducted for federal income tax purposes by tax year, and carryforward balance remaining by tax year.

### Carryforward for Taxpayers Included in a Federal Consolidated Return

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 the allocation of the group's interest expense deduction for these tax years. Please see [Important Notice #19-18](#) for additional information as to how this allocation is calculated.

### For More Information

Visit [www.tn.gov/revenue](http://www.tn.gov/revenue). Click on Revenue Help to search for answers or to submit a question.

### References

Tenn. Code Ann. § 67-4-2006(a)(10); Public Chapter 2011 (2018); P.L. No 115-97