End TCJA's Strict Limitation on Deductibility of Business Interest Expense

American Chemistry Council

The Tax Cuts and Jobs Act (TCJA) amended Internal Revenue Code Section 163(j) to create a strict limitation on the deductibility of interest payments on business loans. As a result of the TCJA, and prior to 2022, businesses' interest expense deductions had been limited to 30% of earnings before interest, tax, depreciation, and amortization (EBITDA). Starting in 2022, interest deductions are limited to 30% of earnings before interest and tax (EBIT).

Under an EBIT standard, in limiting the ability to deduct interest expenses, **capital-intensive companies face higher taxes and financing costs.** This **reduces their flexibility and liquidity, ultimately making it more difficult for them to raise capital, hire workers, and grow** — especially at a time of historically high interest rates. The strict limitation on interest deductibility based on EBIT also harms U.S. competitiveness. Among the 35 countries with an earnings-based interest limitation, the United States is the only one with an EBIT-based standard.

Survey Findings

The American Chemistry Council (ACC) **conducted a survey of its member companies in June of 2024** to understand the effects of key provisions of the TCJA on their businesses and the likely impacts if these provisions are repealed or allowed to expire. As a highly capital-intensive industry, U.S. chemical manufacturers can face significant impacts from strict limitations on interest deductibility.

Value of EBITDA-Based Interest Deduction to ACC Members

"Our company is already losing a significant amount of capital due to 'EBIT' vs. 'EBITDA' test under 163(j).**"**

"If 163(j) and others are not addressed, after-tax interest rate increases substantially, free cash flow declines, **and the ability to invest anywhere is impacted.**"

41% of companies say the pre-2022 Section 163(j) interest expense deduction based on EBITDA **led to increased capital investment in the U.S. by their company.**

33% of companies say the failure to restore the pre-2022 Section 163(j) interest expense deduction based on EBITDA would lead to reduced capital investment in the U.S. by their company.

44% of companies say the pre-2022 Section 163(j) interest expense deduction based on EBITDA **increased the global competitiveness of their company**, while 44% say the failure to restore this provision would decrease their company's global competitiveness.

26% of companies say the pre-2022 Section 163(j) interest expense deduction based on EBITDA **led their company to maintain or expand U.S. operations.**

19% of companies say the failure to restore the pre-2022 Section 163(j) interest expense deduction based on EBITDA **would result in their company reducing or offshoring U.S. operations.**