



## 2017 TCJA PROVISION LIMITING DEDUCTIBILITY OF BUSINESS INTEREST EXPENSE INCREASES BENEFIT OF COST SEGREGATION STUDIES

The 2017 Tax Cuts and Jobs Act (TCJA) amended §163(j) to limit the deductibility of business interest. The limitation is essentially 30% of the adjusted taxable income (ATI) of the taxpayer. (Taxpayers are also allowed to fully deduct any floor plan financing interest, but the discussion of that provision is covered in a separate white paper.)

Under §163(j)(8), “adjusted taxable income” means the taxable income of the taxpayer computed without regard to six items, one of which directly affects the value of a cost segregation study.

For taxable years beginning before 1/1/2022, ATI is computed without regard to “any deduction allowable for depreciation.” This is very important when evaluating the true benefits of a cost segregation study because it means that the increased depreciation deductions generated from the study will not negatively impact the deductibility of business interest expense in the tax year of the study (assuming a pre-2022 study; we’ll have to see if/how the law is amended for any post- 2021 tax years).

Furthermore, due to the post-2021 inclusion of depreciation into the calculation of ATI, a cost segregation study will now provide the additional benefit of decreasing depreciation deductions in post-2021 tax years that would otherwise decrease ATI, thereby reducing the amount of business interest expense ultimately deductible by the taxpayer.

As you can see, in addition to increasing the net present value of depreciation deductions by accelerating their recognition, a cost segregation study will now reduce or even eliminate a potential negative aspect of future depreciation deductions.

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**Start your cost segregation study today**  
**Contact us: 877.410.5040**



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Launched in 2001, Scarpello Consulting provides cost segregation services that allow clients to maximize their depreciation deductions while minimizing audit risk. The firm works with Fortune 500 companies and some of the largest national CPA firms through their multiple offices in Omaha, NE, Overland Park, KS, Sarasota, FL, and Denver, CO.