

BUSINESS INTEREST LIMITATION EXTENSION

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TOPLINE: The One Big Beautiful Bill (OBBB) fixes a feature of the tax deduction for business interest expenses that penalized companies for taking out loans to invest in things like new equipment, factories, and research and development.

BACKGROUND: The 2017 [Tax Cuts and Jobs Act](#) limited business taxpayers' deductions on interest expenses to no more than 30% of "adjusted taxable income" (ATI). In addition to acting as a revenue-raising provision, the purpose of the limitation was to discourage companies from taking on excessive debt financing and to eliminate tax incentives that sometimes exist to do so. The limitation is a blunt tool for addressing a real issue (that the tax code tends to favor debt financing over equity financing). But it fails to address any bias that may exist for companies whose interest expenditures are below the ATI threshold, and it may lead to the opposite bias for companies above the ATI threshold.

A concerning aspect of the provision kicked in starting in 2022 when the definition of ATI changed to subtract off depreciation and amortization. Not only did this limit deductions for interest costs, but it also meant that investments in productive capital or intellectual property *caused* reductions in companies' interest deductions.

What OBBB Did:

- Permanently [returned](#) the interest deduction limitation to the preferred ATI threshold of 30% of earnings before interest, taxes, depreciation and amortization (EBITDA), instead of 30% of earnings before interest and taxes (EBIT).
- Retroactively [fixed](#) the threshold for the tax years 2022–2024 for taxpayers who were harmed by the change in ATI definition.
- Excludes certain foreign income from the interest deduction limitation calculation.

Why It Matters?

- Business investment is a key driver of economic growth.
- Key provisions in OBBB and TCJA were designed to remove tax barriers that discourage investment.
- Under the 2022-2024 definition of ATI, the business interest limitation would have worked against other provisions' purpose of encouraging business investment.
- Fixing the business interest limitation is a [\\$61 billion](#) tax cut over 10 years.

Where Can I Find the Changes? OBBB Sec. [70303](#), [70341-42](#); [26 U.S.C. § 163\(j\)](#).

BOTTOMLINE: Thoughtful improvements to the business tax code—like changing how the limitation on business interest is calculated to *not* penalize investment—are helping drive the economic successes of the One Big Beautiful Bill.

