

How the 2025 Interest Deduction Rule Change Can Lower Your Business Taxes

There's good news for businesses carrying debt or investing heavily in equipment. Financing just got a little more tax friendly. Thanks to updates and OBBBA, the rules around the business interest deduction are changing again, and this time, the adjustment could make a real difference for companies that rely on borrowing to fund growth. Let's take a closer look.

Under the 2017 Tax Cuts and Jobs Act, businesses could only deduct interest expense up to 30% of adjusted taxable income, or ATI. From 2018 through 2021, ATI was based on EBITDA, or earnings before interest taxes, depreciation and amortization. But in 2022 the formula changed. It dropped depreciation and amortization, shifting to EBIT. That might sound small, but had a big impact, especially for capital-heavy Industries. When those deductions disappeared, taxable income looked smaller and deduction limit got tighter. Many companies suddenly lost part of the tax benefit tied to their financing cost.

The new law reverses that 2022 change, and starting in 2025, EBITDA makes a comeback. That means businesses can once again add back depreciation and amortization when calculating their adjusted taxable income, which gives you results in a higher cap for interest deductions. In short, more of your interest expense can now be deducted, improving after-tax cash flow for many businesses. It is especially helpful for companies that carry high levels of debt, invest heavily in machinery, buildings, or equipment, or use financing to manage long receivable or inventory cycles.

Industries like manufacturing, logistics, real estate, and other capital-intensive sectors stand to gain the most. However, smaller businesses may already be exempt from these limits. If your average gross receipts for the past three years are under \$31 million, that's the 2025 threshold, it will be adjusted annually, the cap might not apply to you at all. If your business is subject to the cap, now is a great time to plan ahead.

Here are a few smart moves to consider:

Re-evaluate your financing strategy: With more deductibility available, taking on or restructuring debt might make the more sense before.

Model the numbers: Adding back depreciation and amortization could change your taxable income picture and your overall tax plan.

Madison, WI

1221 John Q Hammons Drive
Suite 100
Madison, WI 53717

Phone: (608) 831-8181
Fax: (608) 831-4243

Brookfield, WI

18650 W. Corporate Drive
Suite 200
Brookfield, WI 53045

Phone: (262) 641-6888
Fax: (262) 641-6880

Colorado Springs, CO

P.O. Box 62786
Colorado Springs, CO 80962

Phone: (719) 413-5551

Contact Us:

Email: info@SVAaccountants.com
Web: SVAaccountants.com

Review your elections: If you've made the real property trade or business election in past years, double check that it still fits your strategy, especially if your financing needs are changing.

If you were previously limiting and deducting your interest expenses, the shift back to EBITDA, starting in 2025, could unlock meaningful savings. As always, the opportunity is in the details. Work with your tax advisor to understand how these updates apply to your business and to position yourself for the most benefit moving forward.

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