## PART IV—BUSINESS-RELATED EXCLUSIONS AND DEDUCTIONS

### SEC. 13301. LIMITATION ON DEDUCTION FOR INTEREST.

(a) IN GENERAL.—Section 163(j) is amended to read as follows: "(j) LIMITATION ON BUSINESS INTEREST.—

"(1) IN GENERAL.—The amount allowed as a deduction under this chapter for any taxable year for business interest shall not exceed the sum of—

"(A) the business interest income of such taxpayer for such taxable year,

"(B) 30 percent of the adjusted taxable income of such taxpayer for such taxable year, plus

"(C) the floor plan financing interest of such taxpayer for such taxable year.

The amount determined under subparagraph (B) shall not be less than zero.

"(2) CARRYFORWARD OF DISALLOWED BUSINESS INTEREST.—
The amount of any business interest not allowed as a deduction for any taxable year by reason of paragraph (1) shall be treated as business interest paid or accrued in the succeeding taxable year.

"(3) EXEMPTION FOR CERTAIN SMALL BUSINESSES .—In the case of any taxpayer (other than a tax shelter prohibited from using the cash receipts and disbursements method of accounting under section 448(a)(3)) which meets the gross receipts test of section 448(c) for any taxable year, paragraph (1) shall not apply to such taxpayer for such taxable year. In the case of any taxpayer which is not a corporation or a partnership, the gross receipts test of section 448(c) shall be applied in the same manner as if such taxpayer were a corporation or partnership.

"(4) APPLICATION TO PARTNERSHIPS, ETC.—

"(A) IN GENERAL.—In the case of any partnership—

"(i) this subsection shall be applied at the partner- ship level and any deduction for business interest shall be taken into account in determining the non-sepa- rately stated taxable income or loss of the partnership, and

"(ii) the adjusted taxable income of each partner of such partnership—

"(I) shall be determined without regard to such partner's distributive share of any items of income, gain, deduction, or loss of such partnership, and

"(II) shall be increased by such partner's distributive share of such partnership's excess taxable income.

For purposes of clause (ii)(II), a partner's distributive share of partnership excess taxable income shall be determined in the same manner as the partner's distributive share of nonseparately stated taxable income or loss of the partnership.

"(B) SPECIAL RULES FOR CARRYFORWARDS.—

"(i) IN GENERAL.—The amount of any business interest not allowed as a deduction to a partnership for any taxable year by reason of paragraph (1) for any taxable year—

"(I) shall not be treated under paragraph (2) as business interest paid or accrued by the partnership in the succeeding taxable year, and

"(II) shall, subject to clause (ii), be treated as excess business interest which is allocated to each partner in the same manner as the nonseparately stated taxable income or loss of the partnership.

"(ii) TREATMENT OF EXCESS BUSINESS INTEREST ALLOCATED TO PARTNERS.—If a partner is allocated any excess business interest from a partnership under clause (i) for any taxable year—

"(I) such excess business interest shall be treated as business interest paid or accrued by the partner in the next succeeding taxable year in which the partner is allocated excess taxable income from such partnership, but only to the extent of such excess taxable income, and

"(II) any portion of such excess business interest remaining after the application of subclause (I) shall, subject to the limitations of subclause (I), be treated as business interest paid or accrued in succeeding taxable years.

For purposes of applying this paragraph, excess taxable income allocated to a partner from a partnership for any taxable year shall not be taken into account under paragraph (1)(A) with respect to any business interest other than excess business interest from the partnership until all such excess business interest for such taxable year and all preceding taxable years has been treated as paid or accrued under clause (ii).

"(iii) BASIS ADJUSTMENTS.—

"(I) IN GENERAL.—The adjusted basis of a partner in a partnership interest shall be reduced (but not below zero) by the amount of excess business interest allocated to the partner under clause (i)(II).

"(II) SPECIAL RULE FOR DISPOSITIONS.—If a partner disposes of a partnership interest, the adjusted basis of the partner in the partnership interest shall be increased immediately before the disposition by the amount of the excess (if any) of the amount of the basis reduction under subclause (I) over the portion of any excess business

interest allocated to the partner under clause (i)(II) which has previously been treated under clause (ii) as business interest paid or accrued by the partner. The preceding sentence shall also apply to transfers of the partnership interest (including by reason of death) in a transaction in which gain is not recognized in whole or in part. No deduction shall be allowed to the transferor or transferee under this chapter for any excess business interest resulting in a basis increase under this subclause.

"(C) EXCESS TAXABLE INCOME.—The term 'excess tax- able income' means, with respect to any partnership, the amount which bears the same ratio to the partnership's adjusted taxable income as—

"(i) the excess (if any) of—

"(I) the amount determined for the partnership under paragraph (1)(B), over

"(II) the amount (if any) by which the business interest of the partnership, reduced by the floor plan financing interest, exceeds the business interest income of the partnership, bears to

"(ii) the amount determined for the partnership under paragraph (1)(B).

"(D) APPLICATION TO S CORPORATIONS.—Rules similar to the rules of subparagraphs (A) and (C) shall apply with respect to any S corporation and its shareholders.

"(5) BUSINESS INTEREST.—For purposes of this subsection, the term 'business interest' means any interest paid or accrued on indebtedness properly allocable to a trade or business. Such term shall not include investment interest (within the meaning of subsection (d)).

"(6) BUSINESS INTEREST INCOME.—For purposes of this sub- section, the term 'business interest income' means the amount of interest includible in the gross income of the taxpayer for the taxable year which is properly allocable to a trade or business. Such term shall not include investment income (within the meaning of subsection (d)).

"(7) TRADE OR BUSINESS.—For purposes of this subsection— "(A) IN GENERAL.—The term 'trade or business' shall not include—

"(i) the trade or business of performing services as an employee,

"(ii) any electing real property trade or business, "(iii) any electing farming business, or

"(iv) the trade or business of the furnishing or sale of—

"(I) electrical energy, water, or sewage disposal services,

"(II) gas or steam through a local distribution system, or

"(III) transportation of gas or steam by pipe- line,

if the rates for such furnishing or sale, as the case may be, have been established or approved by a State or political subdivision thereof, by any agency or instrumentality of the United States, by a public service or public utility commission or other similar

body of any State or political subdivision thereof, or by the governing or ratemaking body of an electric cooperative.

"(B) ELECTING REAL PROPERTY TRADE OR BUSINESS.—For purposes of this paragraph, the term 'electing real property trade or business' means any trade or business which is described in section 469(c)(7)(C) and which makes an election under this subparagraph. Any such election shall be made at such time and in such manner as the Secretary shall prescribe, and, once made, shall be irrevocable.

"(C) ELECTING FARMING BUSINESS.—For purposes of this paragraph, the term 'electing farming business' means—

"(i) a farming business (as defined in section 263A(e)(4)) which makes an election under this subparagraph, or

"(ii) any trade or business of a specified agricul- tural or horticultural cooperative (as defined in section 199A(g)(2)) with respect to which the cooperative makes an election under this subparagraph.

Any such election shall be made at such time and in such manner as the Secretary shall prescribe, and, once made, shall be irrevocable.

"(8) ADJUSTED TAXABLE INCOME.—For purposes of this sub- section, the term 'adjusted taxable income' means the taxable income of the taxpayer—

"(A) computed without regard to—

"(i) any item of income, gain, deduction, or loss which is not properly allocable to a trade or business, "(ii) any business interest or business interest income,

"(iii) the amount of any net operating loss deduc- tion under section 172,

"(iv) the amount of any deduction allowed under section 199A, and

"(v) in the case of taxable years beginning before January 1, 2022, any deduction allowable for deprecia- tion, amortization, or depletion, and

"(B) computed with such other adjustments as provided by the Secretary.

"(9) FLOOR PLAN FINANCING INTEREST DEFINED.—For pur- poses of this subsection—

"(A) IN GENERAL.—The term 'floor plan financing interest' means interest paid or accrued on floor plan financing indebtedness.

"(B) FLOOR PLAN FINANCING INDEBTEDNESS.—The term 'floor plan financing indebtedness' means indebtedness— "(i) used to finance the acquisition of motor vehicles held for sale or lease, and

"(ii) secured by the inventory so acquired.

"(C) MOTOR VEHICLE.—The term 'motor vehicle' means a motor vehicle that is any of the following:

"(i) Any self-propelled vehicle designed for trans- porting persons or property on a public street, highway, or road.

"(ii) A boat.

“(iii) Farm machinery or equipment. “(10) CROSS REFERENCES.—

“(A) For requirement that an electing real property trade or business use the alternative depreciation system, see section 168(g)(1)(F).

“(B) For requirement that an electing farming business use the alternative depreciation system, see section 168(g)(1)(G).”.