

Subject Conformity; business interest deduction

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Summary

H.F. 3815 would selectively conform to the changes for the federal business interest deduction in the One Big Beautiful Bill Act (OBBBA).

Businesses are allowed to deduct the interest paid on debts, subject to a limit under federal law, namely, the deduction cannot exceed the sum of a taxpayer's business interest income, 30 percent of the taxpayer's adjusted taxable income (ATI), and floor plan financing interest. Amounts that exceed this limit may be carried forward as a deduction in future years.

For tax year 2018 through tax year 2021, ATI was determined using a broad measure of income (essentially earnings before interest, taxes, depreciation, and amortization), which allowed a higher limit when calculating 30 percent of ATI. In 2022, as prescribed by federal law, ATI uses a narrower measure of income (essentially, earnings before taxes and interest), which reduces the amount of the deduction.

OBBBA reinstates the broader measure of ATI and allows floor plan financing interest for campers and trailers to be included in ATI. In addition, OBBBA excludes certain controlled foreign corporation income in the determination of ATI and modifies how the deduction interacts with capitalized interest.

H.F. 3815 would conform to the federal changes and would be effective retroactively to tax year 2025, when the federal changes are effective.