

Virginia | Interest Expense Limitation

Eight states have affirmatively decoupled from the federal interest expense limitation, as recommended by the STAR Partnership. The STAR Partnership recommends that states decouple from the TCJA’s interest expense limitation provisions (163(j)), and eight states followed this recommendation. The federal provision provides no material benefit to states and would be extremely complex to impose, administer, and comply with at the state level.

In 2019, Virginia approved a 20 percent deduction for the interest expense disallowed at the federal level. Completely decoupling from the provision would be ideal for Virginia in terms of economic growth and ability to attract investment, and in fact, many of Virginia’s southeastern neighbors have decoupled from the provision altogether. However, if Virginia insists on conforming to the limitation, HB 1716, which increases the deduction from 20 percent to 35 percent, is a significant step in the right direction for the state.

The eight states which decoupled from 163(j) are shown in purple below. The majority of states which have conformed and adopted 163(j) limitations are “static conformity” states, meaning that when they adopted a new federal conformity date following the enactment of the TCJA they copied the federal interest expense limit. The remaining states either do not have a corporate income tax (light purple below) or have taken no affirmative action on the interest expense limitation (teal below) in the wake of the TCJA.

Which states decoupled from the TCJA’s **interest expense limitation** provisions?

