GILL RAGON OWEN
ATTORNEYS
425 W. Capitol Ave, Suite 3800, Little Rock, AR 72201
www.gill-law.com ● (501) 376-3800

EXCESS BUSINESS LOSS RULE TEMPORARILY REPEALED UNDER THE CARES ACT

Key Takeaways:

- New legislation provides a temporary repeal of the "excess business loss" limitation for 2018, 2019 and 2020.
- If you were disallowed a deduction for excess business losses in 2018, you should consider filing an amended 2018 tax return to claim a refund now.

Background:

The Tax Cuts and Jobs Act of 2017 added a rule that disallows noncorporate taxpayers from claiming deductions for "excess business losses" for the 2018 through 2025 tax years.

An "excess business loss" for a given tax year is the excess, if any, of a taxpayer's combined deductions from its trades or businesses over the combined gross income or gain from those trades or businesses, plus $250,000 ($500,000 for joint return filers).

This rule resulted in many taxpayers being denied deductions for these excess business losses.

New Legislation:

Now, under the CARES Act, the excess business loss deduction limitation no longer applies for tax years beginning in 2018, 2019, and 2020. The limitation will resume for tax years beginning after December 31, 2020 and before January 1, 2026.

New Opportunity for Tax Savings:

The CARES Act postpones the loss limitation rules for noncorporate taxpayers, meaning shareholders and partners of pass-through businesses and sole proprietors, which will help certain taxpayers improve cash flow by utilizing business losses.

Because the limitation on excess business losses no longer applies to the 2018 tax year, taxpayers who were subject to the limitation for 2018 now have an opportunity to file an amended return and claim a potential refund for the amount of the disallowed excess business losses.

If you have any questions regarding the temporary repeal of the "excess business loss" rule or other tax related matters, please contact Adam Reid at reid@gill-law.com.

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