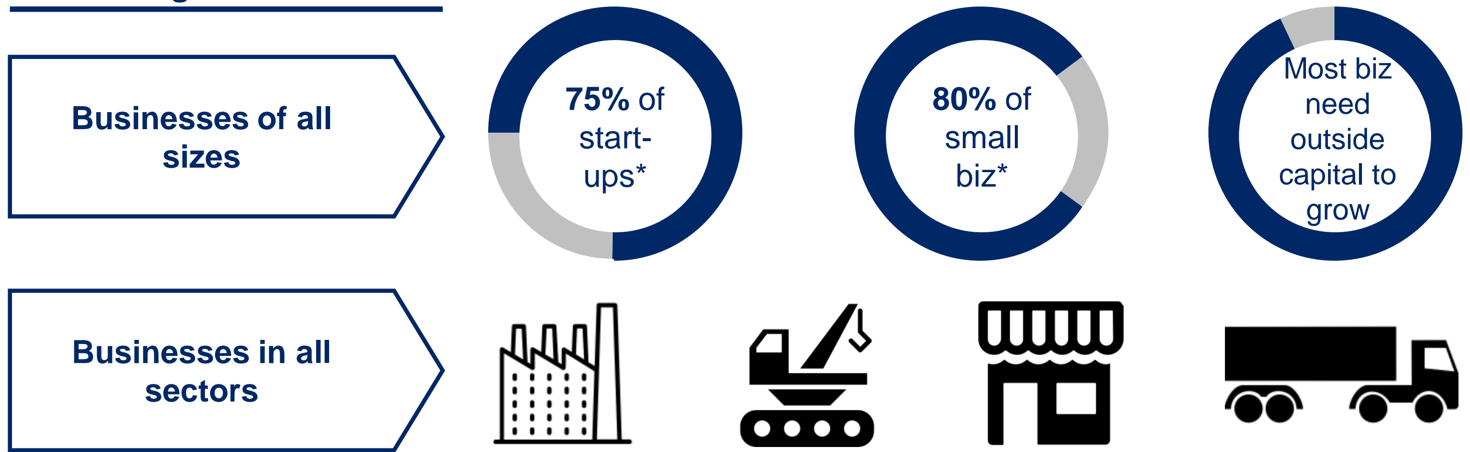
To Ensure Long-Term Growth Through Tax Reform, Maintain Full Interest Deductibility

What is interest deductibility (ID) and why does it matter?

- ID allows businesses to deduct the interest paid on debt from their taxable income.
- The deduction is critical to economic growth. Companies large and small borrow to help finance expansions and/or meet obligations.
- Debt is essential for almost all businesses to finance investments in order to expand, which in turn fuels economic growth.
- Businesses only pay taxes on profits – not costs. Because this is a cost of doing business, the interest on those loans is tax deductible, and has been since the creation of the tax code roughly 100 years ago.
- Tax reform has been identified as a top priority in 2017, and lawmakers are openly considering eliminating ID. This would result in a new tax on businesses, as the federal government would be taxing a portion of companies' regular business costs, in addition to their profits.

Businesses of all sizes and in all sectors use credit financing to grow



Replacing ID with 100 percent expensing puts long-term growth at risk

- 100 percent expensing is not an acceptable substitute for ID.
- 100 percent expensing is a short-term fix with limited benefit to the economy. ID is a key component of companies' decision-making that in turn drives long-term growth.
- According to a recent Goldman Sachs research note, proposals that eliminate ID in favor of 100 percent expensing "would raise the user cost of capital and reduce investment in the longer run."**
- 100 percent expensing provisions that eliminate or limit ID only benefit the minority of companies whose capital structures do not require borrowing to finance new investments.
- The loss of ID would make borrowing more expensive for the majority of businesses, both large and small, that rely on credit to fund new investments or meet operating costs; not all credit is used to purchase assets (e.g. working capital, etc.)
- A working capital loan is used to cover bills, wages, etc.; companies with high seasonal demand or cyclical sales usually rely on working capital loans to bridge periods of reduced business activity.

You can't expense what you can't afford

Sources: *Dr. Rebel Cole, "Why Businesses Use Debt – And How Debt Benefits Businesses," BUILD Coalition, 6/13
**David Mericle, et al., "US Daily: Corporate Tax Reform: Trading Interest Deductibility For Full Capex Expensing," Goldman Sachs Economic Research, 11/30/16

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