



## **The Practical Effect Of Proposed Tax Reform's Limitation On The Deductibility Of Interest By A Business**

On November 2, 2017, the House of Representatives Ways and Means Committee released H.R. 1 -- the proposed Tax Cuts and Jobs Act. Section 3301 of the Act imposes a limitation on the amount of interest a business can deduct. The limitation is 30 percent of a firm's taxable income (which, as described, is the equivalent of Earnings Before Interest, Taxes, Depreciation, and Amortization or EBITDA). The limitation would not apply to certain companies that are regulated public utilities or in the real estate trade. The limitation would also not apply to companies with annual revenues below \$25 million.

To the extent that a middle-market company is subject to the limitation, many owners, professional advisors, investment bankers, lenders, and investors might wonder to what practical effect the limitation has. The short answer is that the limitation is likely to affect only a very small percentage of middle-market companies.

On the following page is a table that presents the average of interest as a percentage of operating income for all companies in the United States in a given industry group and of a given size. At the bottom of each column is the average for all companies of a given size. And, because auto dealers and miscellaneous retailers skew the overall data, at the bottom of each column is the average for all companies of a given size EXCLUDING auto dealers and miscellaneous retailers. The source of raw data is the Internal Revenue Service.

The table illustrates that the "average" middle-market company -- irrespective of size -- is unlikely to be affected by the 30 percent limitation in the proposed tax reform act.

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IWC Family Offices helps owners of middle-market companies  
reduce the tax burden on the sale of the firms by as much as 30 percent or more.  
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**Interest As A Percentage Of Operating Income**

Companies With Net Income NAICS - Industry Name	Asset Range					
	5M-10M	10M-25M	25M-50M	50M-100M	100M-250M	250M-500M
236 - Construction of Buildings	5.38%	13.90%	7.04%	9.85%		12.61%
237 - Heavy Construction and Civil Engineering	7.68%	8.18%	9.12%	10.87%	11.04%	
238 - Special Trade Contractors	4.97%	5.66%	6.09%	3.97%		
313 - Textile and Product Mills	27.49%	13.81%	9.90%	15.04%		57.42%
315 - Apparel Manufacturing	11.72%	7.19%	7.64%	23.58%	3.92%	45.42%
321 - Wood Product Manufacturing	11.83%	6.21%	7.18%	13.66%	19.25%	24.18%
322 - Paper Manufacturing	13.15%	9.51%	20.13%	10.05%	23.62%	
324 - Petroleum and Coal Products Manufacturing	4.72%	7.20%	7.87%			9.90%
325 - Chemical Manufacturing	5.45%	6.96%	7.08%	9.48%	15.24%	19.11%
326 - Plastics and Rubber Products Manufacturing	7.40%	8.93%	7.98%	11.63%		37.74%
327 - Nonmetallic Mineral Product Manufacturing	12.85%	-1.71%	11.96%	12.50%	22.75%	27.01%
331 - Primary Metal Manufacturing	5.77%	7.53%	13.60%	10.36%	17.92%	44.59%
332 - Fabricated Metal Product Manufacturing	4.52%	7.39%	6.68%	9.57%	10.89%	16.23%
333 - Machinery Manufacturing	4.70%	7.52%	7.32%		11.01%	12.63%
334 - Computer and Electronic Product Manufacturin	4.25%	8.15%	7.81%	12.20%	35.75%	19.06%
335 - Electrical Equipment Appliance and Componer	5.50%	4.77%	6.28%	11.01%	13.05%	17.34%
336 - Transportation Equipment Manufacturing	5.54%	4.60%	9.78%	11.30%	15.12%	20.50%
337 - Furniture and Related Product Manufacturing	5.03%	6.48%		9.58%	20.28%	
423 - Wholesale Trade (Durable Goods)	8.50%	9.49%	11.96%	12.32%	17.94%	19.36%
424 - Wholesale Trade (Nondurable Goods)	11.48%	9.76%		12.01%	19.46%	21.81%
425 - Wholesale Electronic Markets and Agents and	5.45%	35.05%		14.40%		
441 - Auto and Auto Parts Dealers	98.62%	-49.05%	-75.52%	710.44%	-118.16%	
442 - Furniture and Home Furnishings	6.95%	13.89%	4.93%	8.45%		9.94%
443 - Electronics and Appliance Stores	-12.54%	12.78%	6.98%			
444 - Building Material and Garden Equipment Deale	16.26%	14.85%	11.15%	14.89%	11.52%	15.99%
445 - Food and Beverage Stores	13.66%	12.08%	55.44%	13.41%	19.99%	
446 - Health and Personal Care Stores	3.70%	5.19%	27.56%	11.59%	36.00%	
447 - Gas Stations	44.42%	23.86%	124.71%	26.06%		27.81%
448 - Clothing and Clothing Accessory Stores	6.02%	8.87%	13.46%	12.63%		19.58%
451 - Retail Sporting Goods, Hobby, Book, and Musi	7.31%	5.64%	44.19%		16.57%	1.67%
452 - General Merchandise Stores	1.87%	7.32%	6.80%			
453 - Misc Store Retailers	510.97%	99.35%	140.63%	152.69%		455.35%
454 - Nonstore Retailers	7.19%	4.77%	7.86%	9.20%	24.87%	39.46%
484 - Truck Transportation	15.01%	29.74%	34.53%	16.14%		-389.36%
485 - Transit and Ground Passenger Transportation	21.16%	-89.17%		34.10%	17.45%	
486 - Pipeline Transportation	0.00%	1.18%				
493 - Warehousing and Storage	32.50%	72.25%	23.60%		-56.77%	
511 - Publishing Industries	4.56%	7.20%	12.24%	28.84%	29.04%	32.61%
512 - Motion Picture and Sound Recording Industries	8.76%	13.17%	44.12%	23.96%	-35.29%	108.13%
515 - Broadcasting (except Internet) Radio and Telev	22.10%	9.60%	23.06%	42.04%	41.59%	477.18%
518 - Internet Service Providers, Web Search Portals	0.70%	10.33%	8.98%	18.47%	8.60%	38.99%
519 - Other Information Services (including news syr	0.79%	3.79%	8.44%	-38.16%	19.38%	15.60%
561 - Administrative and Support Services		8.48%	20.28%	33.91%	63.57%	35.97%
562 - Waste Management and Remediation Services		12.54%	7.24%	10.25%	37.49%	14.72%
61X - Educational Services	4.56%	4.68%	17.25%		31.26%	9.71%
626 - Hospitals, Nursing, and Residential Care Facili	12.68%	15.04%	22.76%		46.84%	38.72%
711 - Other Arts, Entertainment, and Recreation	0.35%	-21.16%		-11.34%	-49.46%	-52.95%
713 - Amusement, Gambling, and Recreation Industr	119.09%	26.63%		41.02%	19.80%	-163.94%
721 - Accommodation	38.32%	42.87%	44.08%		87.27%	67.30%
722 - Food Services and Drinking Places	22.36%	25.74%	26.36%	25.76%	70.48%	-160.84%
812 - Personal and Laundry Services	-16.67%	11.39%	23.76%	25.11%	4.75%	44.87%
Average	23.76%	10.40%	19.33%	34.95%	15.78%	28.72%
<b>Average (excluding 441 and 453)</b>	<b>10.87%</b>	<b>9.41%</b>	<b>15.40%</b>	<b>11.17%</b>	<b>13.77%</b>	<b>12.47%</b>