

ACEC / MA Accounting & Finance Forum OBBBA Tax Update

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Agenda / Overview

- The One Big Beautiful Bill Act (“OBBBA”) was passed into law on July 4, 2025. It was passed in order to extend or make permanent certain provisions from the TCJA of 2017.
- Goals is to discuss certain of the significant provisions:
 - Business provisions
 - Individual provisions
- Significant portions of OBBBA was simply an extension of prior laws that were set to expire.
- Much of what was discussed in the news (limits on PTET) did not actually get passed as part of the bill.

ACEC National

- Katharine Mottley – Vice President, Tax and Workforce Policy
- Discussion of ACEC National perspective & advocacy path

Key Business Provisions

- Research or Experimental Expenditures
- IRC 179D (Energy Efficient Commercial Buildings Deduction)
- Depreciation – IRC 179
- Depreciation – Bonus
- Business Interest Limitation
- Charitable Contributions

Research or Experimental Expenditures

- Taxpayers can deduct domestic “R&E” (aka IRC 174) expenses beginning after December 31, 2024.
 - Similar to rules in effect prior to 2022
 - This is now “permanent”
- Foreign R&E expenses must continue to be capitalized and amortized over 15 years. No relief for R&E performed abroad.
 - Same rule as 2022 through 2024
- For any taxpayer who has enjoyed capitalizing R&E expenses, you can still elect to do so.
- Revenue Procedure 2025-28 was released on August 28, 2025, providing guidance on implementing these provisions.

Research or Experimental Expenditures

- What about R&E expenses that were capitalized during 2022 through 2024? Can these expenses be recovered? If so, how are they recovered?
 - Small business taxpayer options
 - VS
 - Non-small business taxpayer options

Research or Experimental Expenditures

- Small business taxpayers
 - Small business taxpayers will generally be permitted to retroactively deduct previously capitalized, domestic R&E expenses for tax years beginning after December 31, 2021.
 - Under IRC 174A, small business taxpayers are taxpayers that have average annual gross receipts of \$31 million or less over the three years prior to the first taxable year beginning after December 31, 2024.
 - For 2025 tax year, look to average annual gross receipts for 2022 through 2024.
 - In most cases, this is fairly straightforward calculation. If a tiered ownership structure, however, the determination can be more complicated.
 - Tax shelter rules.

Research or Experimental Expenditures

- Small business taxpayers
 - Options:
 - Retroactive Relief;
 - 100% in 2025 via an election;
 - 50% in 2025 and 50% in 2026 via an election; or
 - Ratably over the remaining life of the asset (not via an election) - this would take deductions into the 2029 tax year.

Research or Experimental Expenditures

- Small business taxpayers
 - If a small business taxpayer decides to file amended returns to recover the costs, amended tax returns must be filed for each year R&E expenses were capitalized. If began capitalizing costs in 2022, this would mean 2022 through 2024 tax returns would need to be amended.
 - Small business taxpayers have one year from the date the OBBBA was enacted to elect to retroactively deduct these costs on an amended return.
 - July 6, 2026 (since July 4, 2026, falls on a Saturday);
 - Note that 2022 amended returns may not have until July 6, 2025, due to statute of limitation issues.

Research or Experimental Expenditures

- Non-small business taxpayers
 - Not eligible for retroactive relief.
 - These taxpayers would either deduct the remaining unamortized balance:
 - 100% in 2025 via an election;
 - 50% in 2025 and 50% in 2026 via an election; or
 - Ratably over the remaining life of the asset (not via an election) - this would take deductions into the 2029 tax year.

Research or Experimental Expenditures

- For small business and non-small business who choose 100% or 50% options:
 - Change is made via an automatic accounting method change (statement in lieu of IRS Form 3115); and
 - There is no IRC 481(a) adjustment – change is made on a cut-off basis.

Research or Experimental Expenditures

■ Example – S Corporation

OBBBA - IRC 174 Amortization Options						
	2022	2023	2024	Totals		
IRC Section 174 Capitalized Costs	2,000,000	2,200,000	2,420,000	6,620,000		
Amortization Through 12/31/24	(1,000,000)	(660,000)	(242,000)	(1,902,000)		
Net Tax Value 1/1/25	1,000,000	1,540,000	2,178,000	4,718,000		
Unamortized IRC 174 costs at 1/1/25				4,718,000	-	
Deductions	2025	2026	2027	2028	2029	Total
One Year Election Deduction	4,718,000					4,718,000
Two Year Election Deduction	2,359,000	2,359,000				4,718,000
Amortize over Remaining Life	1,324,000	1,324,000	1,124,000	704,000	242,000	4,718,000
Federal Tax Savings (S Corp - using QBI rate of 29.6%)	2025	2026	2027	2028	2029	2030
One Year Election	1,396,528					1,396,528
Two Year Election	698,264	698,264				1,396,528
Amortize over Remaining Life	391,904	391,904	332,704	208,384	71,632	1,396,528

Research or Experimental Expenditures

■ Example – C Corporation

OBBBA - IRC 174 Amortization Options						
	2022	2023	2024	Totals		
IRC Section 174 Capitalized Costs	2,000,000	2,200,000	2,420,000	6,620,000		
Amortization Through 12/31/24	(1,000,000)	(660,000)	(242,000)	(1,902,000)		
Net Tax Value 1/1/25	1,000,000	1,540,000	2,178,000	4,718,000		
Unamortized IRC 174 costs at 1/1/25				4,718,000	-	
Deductions	2025	2026	2027	2028	2029	Total
One Year Election Deduction	4,718,000					4,718,000
Two Year Election Deduction	2,359,000	2,359,000				4,718,000
Amortize over Remaining Life	1,324,000	1,324,000	1,124,000	704,000	242,000	4,718,000
Federal Tax Savings (C Corp - 21%)	2025	2026	2027	2028	2029	2030
One Year Election	990,780					990,780
Two Year Election	495,390	495,390				990,780
Amortize over Remaining Life	278,040	278,040	236,040	147,840	50,820	990,780

Research or Experimental Expenditures

- For taxpayers taking the deduction on go-forward basis, will need to model out scenarios for best results.
 - What are taxable income projections for future years?
 - Will the additional amortization create a loss?
 - Would S Corporation flow through shareholders be able to take the loss timely?
 - Had more basis because of prior income inclusions, but what about previously made tax distributions?
 - For C Corporations, does this create a net operating loss (“NOL”) subject to an 80% of taxable income rule?
 - Are there sizeable IRC 179D deductions possible in future years?
 - Consider for estimated tax payment requirements.

Research or Experimental Expenditures

- Small business taxpayers must model out retroactive relief vs. go forward basis to determine best results.
- For small business taxpayers choosing to amend prior year returns:
 - All years in which R&E expenses were capitalized must be amended. For most this would mean amending three years of tax returns.
 - Must meet July 2026 deadline (if not sooner for 2022 tax returns).
 - Compliance cost associated with preparing amended returns.
 - Must also now take the reduced R&D credit (79% of original credit).
 - If tax distributions were previously made to cover the prior liability:
 - Do those distributions essentially now become taxable resulting from lower basis?
 - Do the refunds need to go back into the business?
 - If yes, how do you maintain ownership percentages?
 - Typically see the IRS processing amended returns in 12-18 months – meaning it would take that long to get the refund.
 - C Corporation vs. S Corporation/Partnership

Research or Experimental Expenditures

- M&A considerations:
 - 2022 through 2024 recap:
 - Asset Sale – Seller retained capitalized expense balance.
 - Stock Sale – Buyer “stepped into the shoes” of the seller and continued to amortize.
 - Post 2024:
 - Buyers need to understand what the target did with their R&E expense attributes.
 - Did they amend prior year returns?
 - If not, what is the structure of the deal and who will receive the benefit?
 - Sellers need to maximize the amount of deductions they can take prior to or in the year of the sale of the company.

Research or Experimental Expenditures

- M&A considerations:
 - Domestic R&E expenses:
 - Asset Sale:
 - Current year portion of deduction – will help offset gain.
 - Any remaining unamortized balance – future tax returns may need to be filed to receive the benefit of the deduction.
 - Stock Sale – all attributes, including unamortized R&E balance, go to the buyer.
 - Foreign R&E expenses:
 - Asset Sale - no recovery / deduction upon disposition. Unamortized costs stay with the seller. Future tax returns would need to be filed to receive benefit of deduction.
 - Stock Sale – all attributes, including unamortized R&E balance, go to the buyer.

Research or Experimental Expenditures

- Other
 - State conformity issues;
 - Some states followed the R&E expense treatment for 2022 through 2024, while others decoupled;
 - Will they follow amended return treatment?

Research or Experimental Expenditures

- R&D credit implications – go forward basis
 - Similar to rules in effect prior to 2022.
 - Will now go back to electing the 280C reduced credit (79% of gross credit).
 - This is federal neutral but has a state tax benefit.

IRC 179D (Energy Efficient Commercial Buildings Deduction)

- IRC 179D recap
 - Incentive to make buildings more energy efficient.
 - Taxpayer eligibility:
 - Owners of commercial buildings; or
 - The building designers in the case of governmental owned buildings (as government owners do not benefit from the deduction). The rules allowed for an allocation of the deduction in this case.
 - The below components may qualify if certain ASHRAE standards (energy and power costs savings – as compared to a reference building) are met:
 - Building envelope (cladding, windows, roofing, etc.);
 - HVAC system; or
 - Interior lighting (exterior lights do not qualify).

IRC 179D (Energy Efficient Commercial Buildings Deduction)

- IRC 179D recap
 - Inflation Reduction Act of 2022 expanded both scope and impact of deduction.
 - Buildings placed in service prior to 2023 – max \$1.88/square foot (\$.63 cents per each of 3 systems).
 - Buildings placed in service (certificate of occupancy) during 2023 and after – max \$5.36/square foot if all requirements are met.
 - Max \$5.65/square foot for buildings placed in service in 2024; \$5.81/square foot for buildings placed in service in 2025.
 - Sliding scale for deduction
 - Begins at 25% efficiency savings under new rules (was 50% under old rules).
 - Prevailing wage and apprenticeship standards must be met to achieve these higher square foot deduction amounts.
 - Must be paid wages at rates that meet/exceed prevailing wages for locality – maintained by Department of Labor.

IRC 179D (Energy Efficient Commercial Buildings Deduction)

- IRC 179D was “permanent” under prior law.
- Deduction sunsets for property with construction beginning after June 30, 2026.
- Firms have really benefitted from this deduction in recent years (\$5.65/square foot in 2024; \$5.81/square foot for 2025).
- Take advantage while you can - review current project lists and engage third party provider.
- Government owned / nonprofits / tax-exempt entity clients:
 - Public & private schools & universities, churches and religious organizations, charitable organizations, private foundations, etc.
- Can go back and amend prior year returns for projects that qualified.
- Consider R&E expense modelling as well.

Depreciation – IRC 179

- IRC 179 deduction increased to \$2,500,000 with an increased phase-out of \$4,000,000.
- Above \$4,000,000 of fixed asset additions, the deduction is reduced dollar for dollar, and is fully phased out once additions reach \$6,500,000.
- Effective for tax years after December 31, 2024.
- Prior to OBBBA, maximum deduction was \$1,000,000 for 2025.
- The increased deduction allow taxpayers to deduct a larger amount of their capital investments – decreasing taxable income.
- States generally follow IRC 179.

Depreciation – Bonus Depreciation

- 100% bonus depreciation for property placed in service after January 19, 2025.
 - Why January 19, 2025?
- 100% bonus depreciation is “permanent.” It was not previously permanent, but subject to a decreasing % each year under the TCJA.
- The increased deduction allow taxpayers to deduct a larger amount of their capital investments – decreasing taxable income.
- Property acquired between January 1, 2025, and January 19, 2025, is still eligible for 40% bonus depreciation (which was the bonus depreciation % for 2025 prior to the OBBBA).
- Taxpayers can still elect 40% bonus depreciation for the first taxable year after January 19, 2025.
- Unlike IRC 179, most states do not follow federal bonus depreciation. So need to understand which is more favorable.

Business Interest Limitation

- Pre-OBBBA – For years beginning after, December 31, 2021, taxpayers were subject to a limitation (IRC 163(j)) on deducting interest expense based on Adjusted Taxable Income (“ATI”) that did not allow for an addback of depreciation and amortization. This is generally considered the EBIT method. This resulted in less interest expense being deductible for tax purposes.
- The OBBBA changes this for taxable years beginning after December 31, 2024.
 - ATI is now computed by reference to earnings before interest, taxes, depreciation, and amortization (EBITDA), rather than EBIT.
 - This would allow for larger interest deductions for many taxpayers.
 - Rules are now consistent with the rules from 2018 through 2022.

Charitable Contributions

- Pre-OBBBA – limited total charitable contribution deduction for C Corporations to 10% of taxable income, with no floor. Excess amounts were carried forward.
- The OBBBA changes this for taxable years beginning after December 31, 2025.
 - C Corporations
 - Limits total charitable contribution deduction for C Corporations to a floor of 1%, and a maximum of 10% of taxable income. Excess amounts are carried forward.
 - S Corporations and Partnerships
 - Charitable contributions flow through to Shareholders & Partners via K-1 (which has always been the case), where there is a new 0.5% floor at the individual level (for those that itemize). Also applies to taxable years beginning after December 31, 2025.
 - If your AGI is \$200,000, only donations above \$1,000 are deductible.

Key Individual Provisions

- Tax Rates
 - QBI
 - Excess Business Losses
- Standard Deduction
- State and Local Tax Deduction
- Personal Exemption/Enhanced Deduction for Seniors

Tax Rates

- Qualified Business Income (“QBI” or IRC 199A)
 - 20% deduction is now “permanent.” Was not increased to 23%. Was going to expire after 2025.
 - Top level rate for qualifying businesses is still 29.6% (= 37% * 80%).
 - Engineering income generally qualifies for QBI treatment.
 - Applies to ordinary business income.
 - Phase-out beginning in 2026 (only when applicable – i.e., when business is a specified service trade or business):
 - Single – phase in range increases from \$50,000 to \$75,000; phased out at \$272,300.
 - Married filing jointly – phase in range increases from \$100,000 to \$150,000; phased out at \$544,600.
 - Thresholds will be indexed for inflation starting in 2026.

Tax Rates

- OBBBA made the 2017 brackets “permanent” and added inflation adjustments for the 10%; 12%; and 22% brackets.
- Effective for tax years after December 31, 2025.
- Prior brackets were going to expire on December 31, 2025, and the top rate of 37% was going to increase to 39% for 2026.

Tax Rates

- Excess business losses are now “permanent.”
 - Pre-OBBBA – “excess business losses” for noncorporate taxpayers (i.e., individuals with flow through losses) were temporarily disallowed for tax years 2021 through 2028. Limited the amount of business losses that could be used to offset non-business income.
 - Single \$305,000 (inflation adjusted for 2024);
 - MFJ \$610,000 (inflation adjusted for 2024);
 - Any loss above the above amounts carried forward as an NOL.
 - The OBBBA “permanently” extends (after 2028) the disallowance of the deduction and the carryforward as an NOL. Will continue to be inflation adjusted.

Standard Deduction

- Increased standard deduction is now “permanent” will be adjusted for inflation effective for tax years after December 31, 2024.
- In recent years, ~ 90% of individual filers claimed the standard deduction.
- Amount:
 - Single - \$15,750 (would have been \$12,000)
 - Head of household - \$23,625 (would have been \$18,000)
 - MFJ - \$31,500 (would have been \$24,000)

State and Local Tax Deduction

- Pre-OBBBA – federal deduction limited to \$10,000. Would have expired after December 31, 2025, meaning taxpayers again could have fully deducted SALT taxes (assuming they itemized) in 2026.
- The OBBBA extends the SALT cap, but increases the federal deduction to \$40,000 for 2025.
- The cap will increase 1% annually through 2029. In 2030, it reverts back to \$10,000.
- Deduction is reduced by 30% of income that exceeds \$500,000 (\$250,000 if single, and inflation adjusted for future years) but not below \$10,000.
- Federally, pass through entity taxes remain unchanged. Taxpayers may claim both (higher SALT cap and deduction taken at entity level).
- Will need to see how states react to higher Federal SALT cap. Will they repeal PTET in their state as a result?

Personal Exemption/Enhanced Deduction for Seniors

- Personal exemption was repealed by the TCJA and continues to be repealed (except for the senior deduction).
- OBBBA added the senior deduction
 - \$6,000/\$12,000 deduction if taxpayer (or taxpayers if MFJ) attained the age of 65 before the close of the taxable year.
 - Mechanism chosen to generally make social security non-taxable. Though this deduction is not tied to social security in any way.
 - Subject to phaseout when income is above \$75,000 (or \$150,000 for MFJ).
 - Effective for tax years beginning after December 31, 2024, and expires December 31, 2028.

Estate and Gift Tax

- OBBBA increases the current Federal exemption from ~ \$13.99 million per person (\$27.98 million for married couples) in 2025, to \$15 million per person (\$30 million per married couple) starting January 1, 2026.
- Pre-OBBBA, the 2026 amount would have been about half of the OBBBA 2026 amount.
- Going forward amounts are indexed for inflation.
- Provision is “Permanent”
- Still need to consider Federal vs state exemption amounts.
 - Massachusetts – if taxable estate is less than \$2 million then there is no Massachusetts estate tax.

2025 Year End Tax Planning Considerations

- Gift / Estate Planning
 - Make Annual Exclusion Gifts - \$19,000 in 2025/2026;
 - Pay for educational and medical expenses directly;
 - Review Estate Plan/Beneficiary Changes.
- Charitable Planning
 - Changes coming for 2026;
 - Cash, appreciated securities, other assets;
 - Consider use of donor advised fund;
 - “Bunching” charitable contributions;
 - IRA qualified charitable distribution.
- Tax Loss Usage
 - Recognize losses before year end to offset any capital gain;
 - Review any prior year tax carryovers.

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