One Big Beautiful Bill Act – Business Tax Provisions

July 24, 2025

Presented by KWC Certified Public Accountants

KWC Certified Public Accountants

Note: These slides provide general information and should not be considered tax advice.

KWC Certified Public Accountants

Overview

- The One Big Beautiful Bill Act (OBBBA) was signed into law on July 4, 2025
- This presentation provides an overview of the provisions with the biggest impacts on businesses
- OBBBA extended certain provisions from the Tax Cuts and Jobs Act of 2017 (TCJA) that were set to expire, and reinstated and amended others
- Many energy credits were terminated by OBBBA
- Various effective dates apply to different provisions of the law

Extended – QBI Deduction

- The qualified business income deduction was originally available from 2018 through 2025
- Allows noncorporate taxpayers with business income from pass-through entities, including partnerships, S corporations and single-member LLCs, a deduction equal to the lesser of 20% of their qualified business income (QBI) or 20% of their taxable income minus their net capital gains
- QBI is income from a qualified trade or business
- The deduction is subject to limitations, depending on the taxpayer's taxable income and whether the income was earned in a specified service trade or business (SSTB)

Extended – QBI Deduction

- OBBBA permanently extends the 20% QBI deduction
- Increases income thresholds for purposes of computing the QBI deduction limitations
- Adds a minimum deduction of $400, indexed for inflation, for taxpayers with at least $1,000 of QBI from an active qualified trade or business
- The changes are effective January 1, 2026

Extended – Excess Business Loss Limitation of Noncorporate Taxpayers

- The limitation on excess business losses was originally effective from 2021 through 2028
- Disallows noncorporate taxpayers a deduction for excess business losses
- In 2025, excess business losses equal the amount by which net business losses exceed $313,000 for single taxpayers or $626,000 for taxpayers filing jointly, indexed for inflation
- Net business losses equal the amount by which total deductions and losses from all of a taxpayer's businesses exceed the total income and gains from those businesses

Extended – Excess Business Loss Limitation of Noncorporate Taxpayers

- Disallowed losses are treated as net operating losses and carried forward to future years
- OBBBA permanently extends the disallowance of a deduction for excess business losses

Extended – Opportunity Zones

- The qualified opportunity zone (QOZ) program was originally available from 2018 through 2026
- Allows taxpayers to defer eligible capital gains by investing in a QOZ property through a qualified opportunity fund (QOF)
- Gains currently invested in a QOF can be deferred until the investment is sold or exchanged or until December 31, 2026, whichever comes first
- Taxpayers then recognize the lesser of the fair market value of the investment over its basis or the deferred gain over the investment's basis

Extended – Opportunity Zones

- The basis is increased by 10% of the deferred gain if the investment is held for at least 5 years by December 31, 2026
- The basis is increased by 15% of the deferred gain if the investment is held for at least 7 years by December 31, 2026
- The basis is increased to the fair market value of the investment on the date it is disposed if it is held for at least 10 years, meaning no gain on the increase in the value of the investment is recognized upon disposition
- Current QOZ designations expire on December 31, 2026
- OBBBA permanently extends the QOZ program
- A new category of rural opportunity zones will be created

KWC Certified Public Accountants

Extended – Opportunity Zones

- New zones will be designated in rolling 10-year periods under new criteria starting in 2027
- Allows taxpayers to defer gains until the investment is disposed or for 5 years from the date of the investment, whichever comes first
- Increases investment basis by 10% (30% for qualified rural opportunity funds) of deferred gain when held for at least 5 years
- Increases investment basis to the fair market value on the date it is disposed when held for at least 10 years
- Imposes substantial new information reporting requirements and penalties for failure to comply with the requirements
- Reporting requirements and penalties are effective July 5, 2025

Reinstated – R&D Deduction

- Immediate expensing of domestic research and experimental expenditures was disallowed for tax years beginning after December 31, 2021
- R&D expenditures were required to be capitalized and amortized over 5 years (15 years for research performed outside the US)
- OBBBA permanently reinstates the immediate expensing of domestic R&D expenditures for tax years beginning after December 31, 2024
- Taxpayers can elect to capitalize and amortize domestic expenditures over 10 years or the useful life of the research (5 years minimum)
- Foreign expenditures continue to be amortized over 15 years

Reinstated – R&D Deduction

- R&D expenditures include amounts paid for software development
- Taxpayers can elect to expense any unamortized amounts associated with expenditures incurred in 2022, 2023 and 2024 in either 2025 or ratably over two years in 2025 and 2026
- Eligible small business taxpayers can choose to file amended returns to claim immediate expensing for tax years before 2025
- To be an eligible small business, a taxpayer's average annual gross receipts for 2022 through 2024 must not exceed $31M
- Taxpayers must reduce their deduction for research costs by the amount of any research credit

KWC Certified Public Accountants

Reinstated – Bonus Depreciation

- 100% bonus depreciation was available for property placed in service between September 28, 2017 and December 31, 2022
- Reduced deductions were available for 2023 through 2026: 80% in 2023, 60% in 2024, 40% in 2025 and 20% in 2026
- OBBBA permanently reinstates 100% bonus depreciation
- Effective for property placed in service after January 19, 2025
- Property placed in service between January 1 and 19, 2025 is eligible for 40% bonus depreciation
- OBBBA added qualified production property to the list of property eligible for 100% bonus depreciation (until December 31, 2030)

KWC Certified Public Accountants

Amended – Sec. 179 Expense

- The amount of Sec. 179 property that a taxpayer could expense in a year was limited to $1M, indexed for inflation, reduced by the amount by which the cost of all Sec. 179 property placed in service that year exceeded $2.5M, indexed for inflation
- OBBBA increases the amount of Sec. 179 property that a taxpayer can expense in a year to $2.5M, indexed for inflation, reduced by the amount by which the cost of all Sec. 179 property placed in service that year exceeds $4M, indexed for inflation
- Effective for property placed in service after December 31, 2024

Amended – Business Interest Limitation

- The deduction for business interest expense is limited to 30% of adjusted taxable income (ATI)
- The limitation does not apply to eligible small businesses, other than tax shelters, that meet the gross receipts test
- OBBBA reinstates the exclusion of the deduction for amortization, depreciation and depletion from the calculation of ATI for purposes of the business interest limitation, therefore restoring the EBITDA limitation
- Effective January 1, 2025

KWC Certified Public Accountants

Amended – Information Reporting Threshold

- Businesses are required to issue Forms 1099-NEC or 1099-MISC for reportable payments of $600 or more during the year
- OBBBA increases the threshold to $2,000, indexed for inflation
- Form 1099-NEC and 1099-MISC increased thresholds to into effect January 1, 2026
- For Form 1099-K, OBBBA restored the filing threshold to it's pre-2021 level of $20,000 in gross payments and more than 200 transactions
- Form 1099-K thresholds are retroactive and go into effect January 1, 2025

Amended – Charitable Contribution Deduction

- The charitable contribution deduction was limited to 10% of taxable income for corporations
- OBBBA adds a 1% floor to the limitation
- Only contributions in excess of 1% of taxable income and up to 10% of taxable income are deductible
- Contributions in excess of 10% of taxable income can be carried forward for up to 5 years
- Applies exceptions to certain farmers, ranchers, and Native corporations
- Changes are effective January 1, 2026

Amended – Small Business Stock Gain Exclusion

- All or a portion of the gain from the sale or exchange of qualified small business stock (QSBS) held for more than 5 years could be excluded
- The exclusion was 100% for QSBS acquired after September 27, 2010 and between 50% and 75% for QSBS acquired earlier
- The exclusion was limited to $10M per issuer
- OBBBA adjusted the exclusion percentages
- The exclusion for stock held for at least 5 years is 50% if it was acquired before February 17, 2009, 75% for stock acquired between February 17, 2009 and September 27, 2010, and 100% for stock acquired between September 27, 2010 and July 4, 2025

KWC Certified Public Accountants

Amended – Small Business Stock Gain Exclusion

- The exclusion for stock acquired after July 4, 2025 is 50% when held for at least 3 years, 75% when held for at least 4 years, and 100% when held for at least 5 years
- The exclusion is limited to $10M per issuer for stock acquired on or before July 4, 2025 and $15M for stock acquired after July 4, 2025
- The gross asset limitation for the company that issued the stock is increased from $50M to $75M for stock issued after July 4, 2025
- Both the $15M limit and the $75M are adjusted for inflation starting in 2026

Amended – Percentage of Completion Method Exception

- An exception to the required percentage of completion method of accounting was available for home construction contracts
- Applied to contracts that were expected to be completed within a two-year period
- A special rule for residential construction contracts that were not home construction contracts existed
- OBBBA expands the exception for home construction contracts to all residential construction contracts and eliminates the existing special rule
- Increases the two-year completion period to a three-year period
- Applies to contracts entered into after July 4, 2025

Amended – Credits

- The following credits have been amended:
  - Low-Income Housing Credit
  - Carbon Oxide Sequestration Credit
  - Zero-Emission Nuclear Power Production Credit
  - Advanced Manufacturing Production Credit
  - Clean Electricity Production Credit
  - Investment Credit for Certain Energy Property
  - Advanced Manufacturing Investment Credit
  - Clean Electricity Investment Credit
  - New Markets Tax Credit
  - Clean Fuel Production Credit

Terminated – Credits & Deductions

- The following credits & deductions have been eliminated:
  - Alternative Fuel Vehicle Refueling Property Credit: previously available for property placed in service by December 31, 2032, now available only for property placed in service by June 30, 2026
  - Clean Hydrogen Production Credit: previously available for facilities that begin construction by December 31, 2032, now available only for facilities that begin construction by December 31, 2027, available for 10 years from the date the facility was originally placed in service
  - Commercial Clean Vehicle Credit: previously available for vehicles placed in service by December 31, 2032, now available only for vehicles placed in service by September 30, 2025
  - Energy Efficient Commercial Buildings Deduction: now available only for property that began construction by June 30, 2026

Pass-through Entity Tax

- Pass-through entities that elect to pay state income taxes at the entity level (referred to as pass-through entity taxes or PTET) are allowed a deduction on their federal tax return for PTET payments made during the tax year
- Previous versions of the new bill included provisions to disallow or limit the deduction of PTET payments made by specified service trades or businesses (SSTBs)
- The final version of the bill does not include any such provision, and PTET payments continue to be deductible on the federal tax return

KWC Certified Public Accountants

Pass-through Entity Tax

- States adopted PTET provisions in response to the $10,000 limit on the deduction for state and local taxes (SALT) on individual taxpayers' federal income tax returns which was introduced with the TCJA of 2017
- Since the SALT limitation was originally set to expire in 2025, many states' PTET programs are scheduled to expire at the end of 2025
- However, OBBBA permanently extends the SALT limitation
- It increases the deduction for 5 years before reverting to $10,000 for 2030 and beyond

Pass-through Entity Tax

- For the 2025 tax year the SALT deduction is capped at $40,000; reduced, but not below $10,000, for taxpayers with modified adjusted gross income (MAGI) in excess of $500,000
- Both the deduction and the MAGI threshold increase to 101% of the prior year's amounts for the years 2026 through 2029
- It remains to be seen whether states will extend their PTET programs in response to the extension of the SALT limitation

KWC Certified Public Accountants

Summary

Effective in Tax Year	Provisions
2025	- R&D deduction – Jan 1, 2025 - Sec. 179 expense – Jan 1, 2025 - Business interest limitation – Jan 1, 2025 - Bonus depreciation – Jan 20, 2025 - Small business stock gain exclusion – Jul 5, 2025 - Percentage of completion method exception – Jul 5, 2025 - Qualified opportunity fund reporting requirements – Jul 5, 2025 - Information reporting threshold (Form 1099-K) – Jan 1, 2025
2026	- QBI deduction – Jan 1, 2026 - Information reporting threshold (Form 1099-NEC/MISC) – Jan 1, 2026 - Charitable contribution deduction – Jan 1, 2026
2027	- Opportunity zone designations – Jan 1, 2027

Questions?

Emily Crimmins – emily.crimmins@kwccpa.com

Ben Stokes – ben.stokes@kwccpa.com

For further questions please reach out to your KWC advisor

KWC Certified Public Accountants