



# Annual Tax Update

December 18, 2025



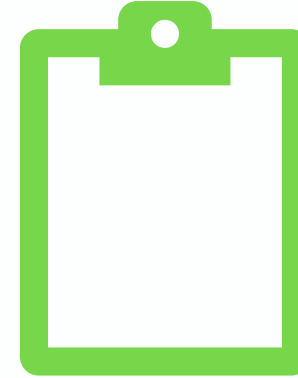
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# Our Presenter Team



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# Unpacking One Big Beautiful Bill

- The most significant U.S. tax code update since the 2017 Tax Cuts and Jobs Act (TCJA)
  - Retains and/or modifies the TCJA
  - Some new provisions
  - Broad implications for the economy and business environment
- A big win for businesses with provisions that could generate immediate cash flow.



# Research & Development Expense Deductibility

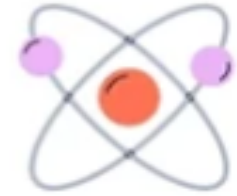
- Restore immediate deduction for DOMESTIC research and development costs. - Effective for tax years starting after 12/31/2024.
  - Alternatively, taxpayers may continue to amortize over 5 years;
  - 10-year amortization period available through IRC Sec. 59(e) election.
- Transition rules allow deduction of prior year unamortized costs (Domestic only) that were capitalized in years 2022-2024.



# Research & Development Expense Deductibility

## Transition Rules:

1. Elect to deduct all unamortized DOMESTIC R&D costs from 2022-2024 in 2025 tax year.
2. Elect to deduct all unamortized DOMESTIC R&D costs from 2022-2024 ratable over 2025 and 2026 tax years.
3. Continue to amortize the 2022-2024 costs over the remaining 5-year life.



## Additional Transition Methods for Small Business Taxpayers

4. Elect to amend 2022, 2023, and 2024 returns to expense DOMESTIC costs previously capitalized.
5. Elect to deduct 2022 and 2023 unamortized amounts on a timely filed/superseded 2024 return.



# Research & Development Tax Deductibility

- Planning and projections will be important in determining which transition path to choose
- Rev. Proc. 2025-28 provides technical guidance
  - Procedures for changing accounting methods
    - Form 3115 required or not
  - Elections/Statements that must be attached to returns
  - Special scenarios for both calendar/fiscal year filers
  - July 6, 2026, deadline to file amended returns for small business taxpayers
- Consider IRC Sec 174 and 174A study to identify R&D expenditures (including any software development costs).



# Polling Question #1

How much time have you spent planning for the impact of the One Big Beautiful Bill Act?

A: One (1) day

B: Three (3) days

C: One (1) week

D: More than one (1) week



# Tax Depreciation: Reinstatement of 100% Bonus Depreciation

- 100% bonus depreciation is reinstated for property placed in service after January 19, 2025, allowing a full first-year deduction for qualifying property.
- Tangible property with a tax recovery period of 20 years or less, including computer software and qualified improvement property (QIP).
- Cost Segregation Studies can be utilized to maximize the benefits of Bonus Depreciation in order to accelerate deductibility for shorter-lived assets inherent in larger building/real property projects.



## Tax Depreciation: Expansion of IRC 179 Depreciation

- For 2025, taxpayers can elect to expense up to \$2,500,000 of eligible capital expenditures.
- IRC 179 election phases out between \$4,000,000 - \$6,500,000 of overall capital expenditures.
- IRC 179 election can be used to expense certain qualified real property (Roof, HVAC, Fire Protection, Security Systems)



## Tax Depreciation: De Minimis Safe Harbor Election

- Now indexed for inflation – current amounts below to be adjusted annually
- \$5,000 per item or invoice for taxpayers with an Applicable Financial Statement (i.e., audited financial statements).
- \$2,500 per item or invoice for taxpayers without an Applicable Financial Statement.



## Tax Depreciation: NEW - Qualified Production Property (QPP)

- Qualified Production Property (QPP), a new incentive for non-residential real estate, allows a 100% first-year deduction for qualifying property that would otherwise be depreciated over a 39-year recovery period.
- QPP
  - Manufacturing Facilities
  - Agricultural or Chemical Production, or
  - Refining of tangible personal property (resulting in “substantial transformation”)
  - Must be in the U.S. or its possessions



# Tax Depreciation: NEW - Qualified Production Property (QPP)

- Construction Window: Construction must begin after January 19, 2025 , and before January 1, 2029.
- Placed in Service Deadline: Property must be placed in service before January 1, 2031.
- Original use must begin with the taxpayer.
- Property acquired during the eligible period may qualify if meets certain conditions.
- Portions of property used for offices, admin, parking, sales, research, engineering...are excluded from QPP provision.
  - Cost Segregation Studies can be utilized to maximize the benefit and identify excluded areas.
- Deduction only available to taxpayer who both owns and uses property in a QPP activity.
- The taxpayer must make an irrevocable election to treat the property as QPP on their tax return for the year it is placed in service.
- Property subject to recapture if within 10 years it is no longer QPP.



## Polling Question #2

Is your business claiming the Research and Development Credit?

A: Yes

B: No

C: Not performing any Research and Development activities



# Tax Depreciation

## IRC Sec. 179 – Inflation-Adjusted Limits and Phaseout Threshold

- §179 Depreciation
  - Maximum expense election
  - 2023 - \$1,160,000
  - 2024 - \$1,220,000
  - 2025 - \$2,500,000
  - 2026 - \$2,560,000
- Phaseout threshold
  - 2023 - \$2,890,000
  - 2024 - \$3,050,000
  - 2025 - \$4,000,000
  - 2026 - \$4,090,000



# Tax Developments

## Small Business Taxpayer Exception

- Taxpayers with average gross receipts of less than:
  - \$29,000,000 for 2023
  - \$30,000,000 for 2024
  - \$31,000,000 for 2025
  - \$32,000,000 for 2026
- May make an accounting method change to elect:
  - To use cash method of accounting.
  - To be exempt from requirement to maintain inventories.
    - However, the taxpayer must:
      - Treat raw materials inventory as “non-incidental materials and supplies, **or**;
      - Follow “applicable financial statement treatment”
  - To be exempt from requirement to use percentage-of-completion accounting for long-term contracts to be completed in two years.



## Polling Question #3

Have you conducted a cost segregation study to accelerate depreciation and improve cash flow?

A: Yes

B: No



# Interest Expense Limitation - IRC 163(j)

- OBBB Restores Pre-2022 Definition of Adjusted Taxable Income.
  - Effective for tax years after December 31, 2024.
- Simplified illustration:

	Taxable Income
add-back:	Interest Expense
add-back:	<u>Depreciation/Amortization</u>
	Adjusted Taxable Income

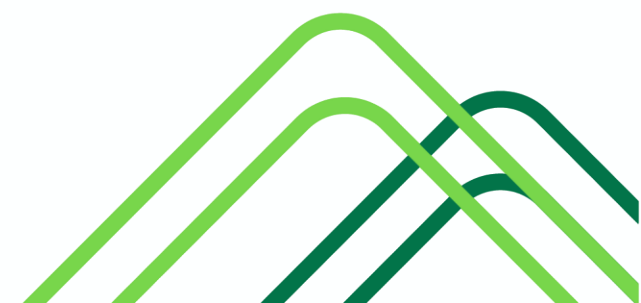
Interest expense deduction is generally limited to 30% of Adjusted Taxable Income, plus any Interest Income.



# Net Operating Losses

- TCJA established new set of rules regarding Net Operating Losses.
- Current net operating losses can only be carried forward.
- Can only be used to offset up to 80% of taxable income annually.

This may create additional planning opportunities for businesses in 2025 and 2026 that have R&D and significant capital expenditures.



# Qualified Business Income (QBI) Deduction

- Generally, non-corporate shareholders and partners of pass-through entities can deduct up to 20% of their qualified business income
  - (subject to several limitations)
- QBI was scheduled to expire at the end of 2025.
- OBBB has “permanently” extended this provision



## IRC Section 1202 – Expanded Qualified Small Business Stock Gain Exclusion

- Enacted in 1993, the Section allows individuals to avoid paying tax on “up to” 100% of the gain on the sale of “Qualified Small Business Stock (QSBS).”
- Under OBBB provisions, stock issued after July 4, 2025, allows for reduced holding periods to achieve partial gain exclusion:
  - 3 years = 50% exclusion
  - 4 years = 75% exclusion
  - 5 years = 100% exclusion
- In addition, the base limitation is increased from \$10 million to \$15 million (and will be indexed for inflation after 2026).
- Qualification for gain exclusion continues to include the same requirements; however, the “adjusted tax basis” of the asset of the corporation at the time of stock issuance is increasing from \$50 million to \$75 million.
- IRC Section 1045 should be considered for sales of QSBS that don’t meet either the old or new “holding periods” .....there are still options to defer the gain recognition.



# Charitable Contributions – C Corporations

## New 1% Floor on Corporate Charitable Contribution Deductions.

- Effective for years beginning after December 31, 2025
- Only the portion of charitable contributions that exceeds 1% of taxable income is deductible, up to the 10% ceiling.
- Excess contributions are carried forward for 5 years on FIFO basis.
  - The 1% floor is not considered excess contributions.



# Increased 1099 Reporting Threshold

- Effective for payments made after December 31, 2025
- Reporting threshold is increased from \$600 to \$2000
  - Forms 1099-MISC
  - Forms 1099-NEC
  - Forms 1099-K (\$20,000 threshold)
- \$2000 threshold will be indexed for inflation starting in 2027.



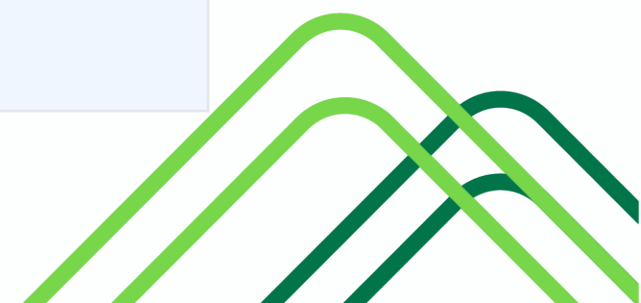
# International Tax Considerations – Businesses

- Global Intangible Low-Tax Income (GILTI) is renamed to Net CFC Tested Income (NCTI).
  - The effective tax rate for U.S. Corporations increases from 10.5% to 12.6% because of the reduction in IRC Sec. 250 deduction.
    - Section 250 deduction reduced from 50% to 40%.
    - Foreign tax credit – Disallowance on “deemed-paid” foreign taxes for NCTI is reduced from 20% to 10%.
    - Expense allocation changes to be considered (Interest and R&D)
- Foreign-Derived Intangible Income (FDII) is renamed to Foreign-Derived Deduction Eligible Income (FDDEI)
  - The effective tax rate on the qualifying income increases from 13.125% to 14% because of the reduction in IRC Sec. 250 deduction
    - Section 250 deduction reduced from 37.5% to 33.34%
- Qualified Business Asset Investment Exclusion is eliminated for both NCTI and FDDEI.
- Permanent extension of CFC “look-through” rules. IRC Section 954(c)(6)
  - Applies to dividends, interest, rents, royalties received/accrued by one CFC from a related CFC.
- Downward attribution rule restored. IRC Section 958(b)(4)
  - Limits downward attribution of stock ownership under CFC rules.
- One-Month Deferral Repealed. IRC Section 898(c)(2)
  - IRS Notice 2025-72 indicates that forthcoming Regulations will provide guidance.
  - Applies to specified foreign corporations’ taxable years beginning after November 30, 2025.



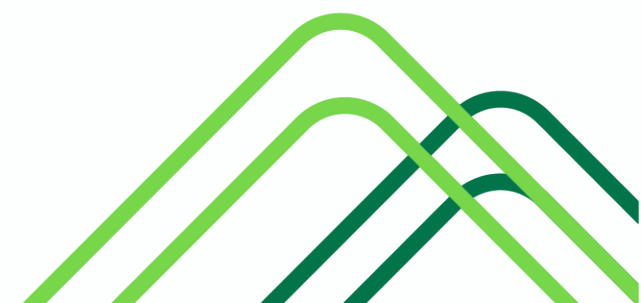
# Employer Provided Child Care Credit

Provision	Prior Law	OBBBA Change
Credit Rate	25% of qualified childcare expenditures	40% (50% for eligible small businesses)
Dollar Limit	\$150,000	\$500,000 (\$600,000 for eligible small businesses), indexed for inflation after 2026
Eligible Small Business	Not defined	Defined by 5-year gross receipts test under <a href="#">§448(c)</a>
Qualified Expenditures	Direct contracts with childcare facilities	Includes contracts with intermediaries contracting with multiple facilities
Joint Ownership	Not addressed	Jointly owned/operated facilities qualify
Effective Date	N/A	Amounts paid/incurred after 12/31/2025



# No Tax on Tips...

- Temporary provision for occupations where tipping is customary.
  - Effective for years 2025 - 2028
- Businesses will have some reporting requirements on W-2, 1099, or equivalent.
- No changes to withholding requirements for 2025.
- Tax exemption will ultimately be determined at the individual level.
- Guidance provided by Treasury and IRS via Notice 2025-69 (with examples).



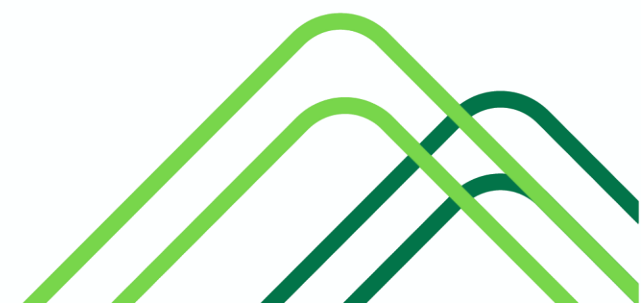
# No Tax on Overtime...

- Temporary provision - Effective for years 2025 - 2028
- Qualified overtime compensation is defined under §7 Fair Labor Standards Act
  - Applies to the amount that is paid more than the employee's regular rate of pay.
- Businesses will have some reporting requirements on W-2, 1099, or equivalent.
- No changes to withholding requirements for 2025.
- Tax exemption will ultimately be determined at individual level.
- Guidance provided by Treasury and IRS via Notice 2025-69 (with examples).



# Excess Business Loss (EBL) Limitation

- OBBB made the EBL rules permanent.
- Generally, these rules apply to individuals, trusts, and estates.
- EBL rules limit the amount of business losses that can be deducted in the current year from all trades or businesses.
- For 2025, the limitation is \$626,000 for joint filers, \$313,000 for single filers.
- Losses in excess of the EBL are carried forward as an NOL.



# State and Local Tax Considerations – Businesses

- OBBB and IRC Conformity
  - Rolling Conformity
    - Automatically follows unless specific legislative action is taken to decouple
  - Static Conformity
    - Legislative action is required to conform
  - Selective Conformity
    - Conformity generally depends on the fiscal impact
- Most states have adjourned their legislative sessions for the year, which pushes the decision on conformity for those states to sometime in 2026.



## Polling Question #4

Within the past year, have you performed a state nexus study to review compliance with state income tax and sales and use tax?

A: Yes

B: No



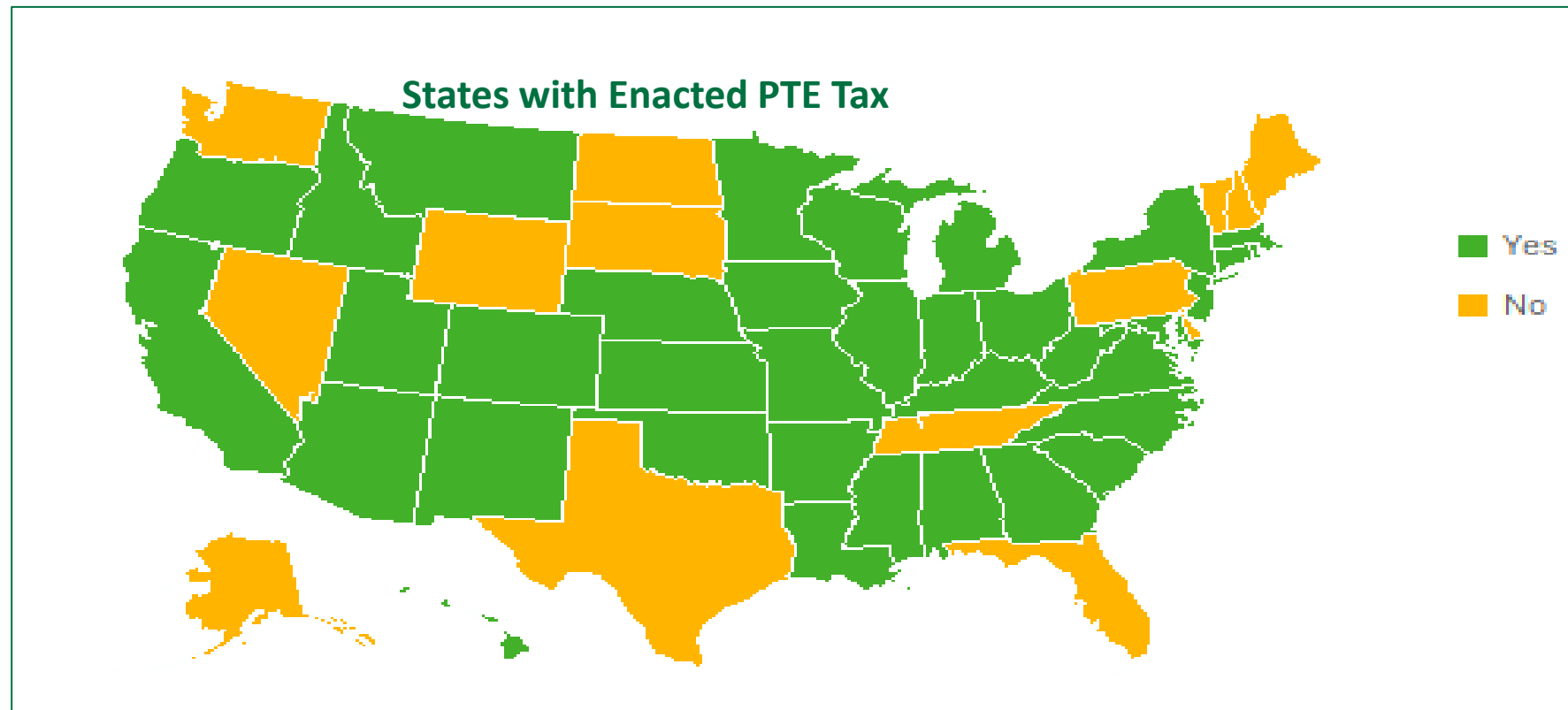
# Individuals – SALT CAP

- OBBA Temporarily increases the SALT Cap from \$10,000 to \$40,000.
  - Effective for years 2025 – 2029
  - \$40K cap is increased 1% per year.
- Phase-out of increased Cap begins at \$500,000 of modified AGI.
  - The phase out threshold will be indexed for inflation.
- Cap is fully reduced to \$10,000 at \$600,000 of modified AGI.



# Individuals – SALT Cap

- OBBA contains no provisions limiting SALT workarounds, such as the pass-through entity tax (PTET).



# Individuals – Charitable Contributions

- NEW - 0.5% AGI floor for taxpayers that itemize deductions.
  - Charitable deduction is allowed only to the extent it exceeds 0.5% of AGI
  - Effective starting in 2026

Example: Taxpayer itemizes deductions.

AGI	\$500,000
Donations: Cash -	\$10,000
publicly traded stock -	\$15,000
\$500,000 * 0.5% =	<u>(\$2,500)</u>
Charitable deduction	22,500

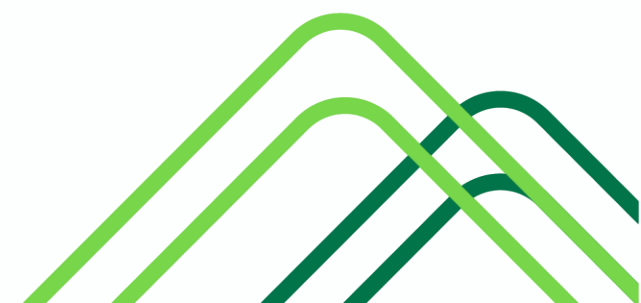


# Individuals – Itemized Deductions

- NEW – Limitation on Itemized Deductions.
  - Apply to high-income taxpayers in the 37% tax bracket
  - Total itemized deductions will be reduced by 2/37 (5.4%) of the lesser of:
    - Itemized deductions, or
    - Taxable income that exceeds the 37% rate bracket.
  - Effective starting in 2026

Example: Taxpayer itemizes deductions.

Taxable income	\$800,000
Itemized deductions	100,000



# Individuals – Itemized Deductions

Example: MFJ Taxpayer itemizes deductions.

Taxable income	\$800,000
Itemized deductions	100,000
37% Bracket (2025)	751,600

Lessor of:

$$\$100,000 * 2/37 = \$5,405$$

$$\$900,000 - 751,600 = \$148,400 * 2/37 = \$8,022$$

Itemized deductions:  $100,000 - 5,405 = 94,595$



# Individuals – Standard Deduction

- Permanent increase and Enhancement
  - 2025
    - MFJ           \$31,500
    - Single       \$15,750
    - HOH         \$23,625
  - 2026
    - MFJ           \$32,200
    - Single       \$16,100
    - HOH         \$24,150



# Individuals – Charitable Deduction (Only for those who claim the Standard Deduction)

- Starting in 2026

Taxpayers who claim the standard deduction may also claim a charitable contribution deduction of up to:

- Single - \$1,000
- MFJ - \$2,000

For cash contributions made during the year directly to §501(c)(3) charitable organizations.



## Polling Question #5

On your personal tax return, do you typically:

A: Claim itemized deductions?

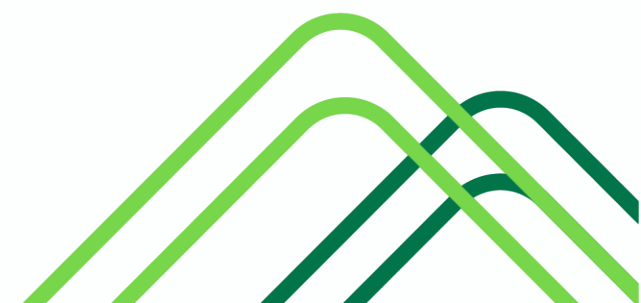
B: Claim the standard deduction?

C: Not sure..



# Individuals – Senior Deduction

- TEMPORARY - \$6,000 Deduction for Seniors
  - Applies to
    - Tax years: 2025 - 2028
    - Individuals age 65 and older
  - MFJ returns where both spouses are age 65 or older may claim \$12,000 deduction.
  - Deduction phases out for taxpayers with modified AGI between:
    - Single – \$75,000 – \$175,000
    - MFJ - \$150,000 - \$250,000



# Individuals – Interest Paid on New Car Loan

- TEMPORARY - Interest Deduction of up to \$10,000 per year.
  - Applies to
    - Tax years: 2025 - 2028
    - New vehicle purchased for personal use (after 12/31/2024).
      - GVWR <14,000 lbs
      - Final assembly in the U.S.
    - Interest paid on loans secured by a first lien on the vehicle.
  - Deduction phases out for taxpayers with modified AGI between:
    - Single – \$100,000 – \$150,000
    - MFJ - \$200,000 - \$250,000



# Individuals –Energy Credits

Not allowed for property placed in service after 6/30/2026

- Alternative Fuel Vehicle Refueling Property Credit

Not allowed for property placed in service after 12/31/2025

- Energy Efficient Home Improvement Credit
- Residential Clean Energy Credit

Not allowed for vehicle acquired after 9/30/2025

- Clean Vehicle Credits



# Estate Tax Exemption

The increased Estate Tax Exemption is made permanent under the OBBB.

2025 Exemption amount is \$13,990,000 (\$27,980,000 for a married couple)

2026 Exemption amount is \$15,000,000 (\$30,000,000 for a married couple)

- This amount will be indexed for inflation after 2026.

OBBB also retains the portability rules, allowing a surviving spouse to use the deceased spousal unused exclusion amount, provided a timely election is made on the deceased spouse's tax return.

Federal estate tax rate is 40% (for taxable amount of greater than \$1M)



# Portability - Estate Tax Exemption

Husband passes away in 2025, with an estate valued at \$10M, and no taxable gifts were made during his lifetime.

Estate Tax Exemption (2025)	\$13,990,000
Husband's Gross Estate	<u>10,000,000</u>
<b>Deceased spouse unused exclusion</b>	<b>\$3,990,000</b>

The Executor of Husband's estate files a federal estate tax return to elect portability of the unused exclusion amount. This allows the surviving spouse to use the Husband's unused amount. Wife passes away in 2026.

Wife – Estate Tax Exemption (2026)	\$15,000,000
Unused exclusion amount from Husband	<u>3,990,000</u>
<b>Combined exclusion amount</b>	<b>\$18,990,000</b>



# Estate Tax - States

The following states impose an estate tax at the state-level:

Connecticut

District of Columbia

Hawaii

Illinois

Maine

Maryland

Massachusetts

Minnesota

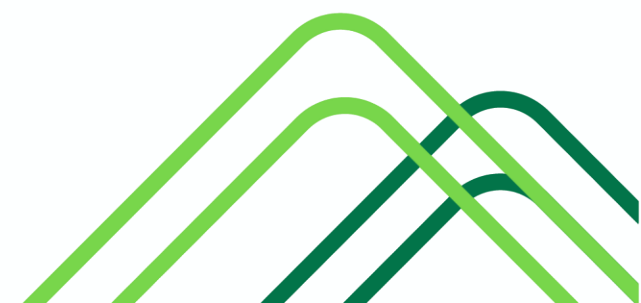
New York

Oregon

Rhode Island

Vermont

Washington



# Annual Gift Tax Exclusion

The Annual Gift Tax Exclusion amount is \$19,000 for years 2025 and 2026.

A donor can exclude up to \$19,000 in gifts to individuals without those gifts counting against the donor's lifetime estate tax exemption.

Example: Husband and Wife have 4 children. Husband and Wife each gift \$19,000 to each of their 4 children.

	Husband	Wife	Total
Child 1	19,000	19,000	38,000
Child 2	19,000	19,000	38,000
Child 3	19,000	19,000	38,000
Child 4	19,000	19,000	38,000
Total	76,000	76,000	152,000



## Polling Question #6

Have you reviewed your estate plan within the past 24 months?

A: Yes, I review annually

B: No, it may be a bit outdated

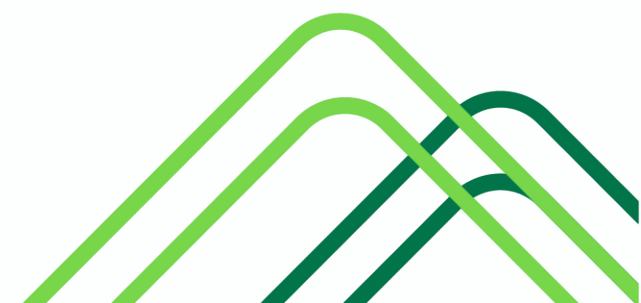
C: No estate plan is in place.



# Estate Tax Planning

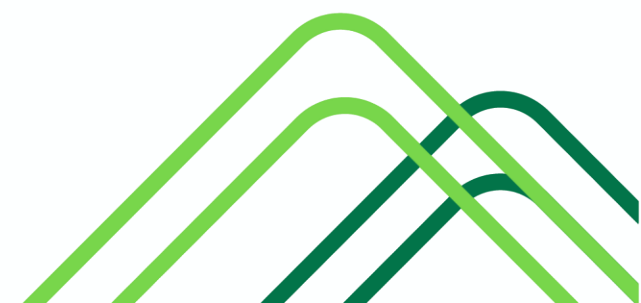
## Transfers During Lifetime

- Transfer by Gift
- Transfer by Sale
- Valuation Discounts
  - Lack of Marketability
  - Lack of Control
- Assets Grow Outside of your Estate
- Maintain Control of your business
  - Gift non-voting stock
  - Utilize trusts to hold stock



# Planning Considerations

- The transition rules for recovering 2022-2024 R&D costs are complex. Start the discussion now to determine the most tax-effective approach for your business.
- OBBB adds additional layers to the already complex depreciation rules. While these are very taxpayer-friendly, planning is necessary to engineer the best plan for you.
- The various state pass-through entity (PTE) elections have created a complex yet beneficial path for owners of S corporations and partnerships to obtain a deduction for state taxes.
- Consider a “bunching” strategy to for making charitable contributions.
- Review your estate planning (including review of wills and trusts) to make sure they are up to date.
- If you have more than \$10M in assets consider plan to move assets outside of your Estate.



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