



# TAX IMPACTS OF THE ONE BIG BEAUTIFUL BILL ACT

Key Tax Changes for Businesses and Individuals

PRESENTER

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# DISCLAIMER

The information provided herein is educational in nature and is based on authorities that are subject to change. You should contact your tax adviser regarding application of the information provided to your specific facts and circumstances.





# AGENDA

ONE

Business expensing and depreciation enhancements

TWO

Qualified production property and QPP planning considerations

THREE

Business interest expense limitation and R&E transition rules

FOUR

FDDEI deduction planning an international tax modeling considerations

FIVE

Individual, employer, and pass-through tax provisions

SIX

State conformity, ASC 740 considerations, and ASU 2023-09 income tax disclosures

# LEARNING OBJECTIVES

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1

## Identify

Identify key OBBBA business and individual tax changes affecting depreciation, QPP, interest expense, R&E, FDDEI, compensation reporting, deductions, and credits.

2

## Apply

Apply OBBBA effective dates, transition rules, and election considerations to Sections 168(k), 168(n), 163(j), 174A, 174, 250, and 280C planning scenarios.

3

## Evaluate

Evaluate selected state conformity differences and related federal/state tax calculations, deferred tax, and ASC 740 implications.

4

## Recognize

Recognize employer, individual, pass-through owner, international tax, and financial reporting considerations arising from OBBBA and ASU 2023-09.



# EXPENSING AND DEPRECIATION ENHANCEMENTS UNDER OBBBA

# SECTION 179 EXPENSING

- **Section 179 prior to amendment by OBBBA**

- Election to deduct up to \$1 million of Sec. 179 property placed in service during the year, subject to a taxable income limitation
- Deduction phases out if Sec. 179 property placed in service during the year exceeds \$2.5 million
- Sec. 179 property = generally personal tangible property / computer software; may elect to treat QIP and improvements to existing nonresidential real property roofs, HVAC systems, fire protection and alarm system, and security systems, as Sec. 179 property

- **Section 179 as amended by OBBBA – effective for property placed in service in taxable years beginning after Dec. 31, 2024**

- Expense limit raised to \$2.5 million (indexed for inflation)
- Phase-out threshold increased to \$4 million (indexed for inflation)



# BONUS DEPRECIATION UNDER SECTION 168(K)

- **Section 168(k) prior to amendment by OBBBA**
  - Special “bonus” depreciation allowed for “qualified property”
  - Qualified property = generally Sec. 168 property with a recovery period of 20 years or less (personal property, land improvements, QIP, etc.) or software; excludes property required to be depreciated using the alternative depreciation system (ADS)
  - Not qualified property if taxpayer had a prior depreciable interest before acquisition
  - May irrevocably elect out of the bonus depreciation provisions by “class of property” for a taxable year
  - Bonus % generally based on when property placed in service (100% from 9/27/17-12/31/22, 80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026, 0% thereafter)
- **Section 168(k) as amended by OBBBA**
  - 100% bonus depreciation for qualified property made permanent for property acquired after January 19, 2025 (deduction claimed when placed in service)
  - Can elect reduced bonus percentage as part of transition rules



# QUALIFIED PRODUCTION PROPERTY (QPP) – AS DEFINED IN SECTION 168(N)

- **New Section 168(n) added by the One Big Beautiful Bill Act (OBBBA)**
  - Elective 100% depreciation deduction for QPP
  - QPP = portion of nonresidential real property in the United States (or in a possession thereof) used by the taxpayer as an integral part of a qualified production activity
    - Construction must begin after January 19, 2025, and before January 1, 2029
    - Must be placed in service before January 1, 2031
    - Lessor of property is not considered to be the user of the property
  - Excludes space used for offices, administrative services, lodging, parking, sales activities, research activities, software development or engineering activities, or other functions unrelated to manufacturing, production, or refining of tangible personal property
  - Qualified production activity = manufacturing, production, or refining of a qualified product (i.e., any tangible personal property)
    - Must result in a “substantial transformation” of the property comprising the product
    - “Production” does not include activities other than agricultural production and chemical production
  - Recapture provisions apply if property use changes



# FURTHER GUIDANCE PROVIDED IN NOTICE 2026-16

- **Notice 2026-16**
  - Provides interim guidance regarding electing 100% depreciation deduction for QPP
  - Taxpayers may rely on the guidance provided in the notice until proposed regulations are published if applied in its entirety for all QPP placed in service in such taxable years.
  - Key items covered in the notice include the following:
    - Integral part of the qualified production activity
    - Leased property
    - Original use property and exceptions
    - Identification of eligible property and allocation of costs
    - Procedures to elect to deduct all or a portion of depreciation of QPP
    - Depreciation recapture rules
  - IRS and Treasury requested that comments be submitted by April 20, 2026.



# QUALIFIED PRODUCTION ACTIVITY AND SUBSTANTIAL TRANSFORMATION

- **Notice 2026-16**

- Qualified Production Activity (QPA) = manufacturing, production, or refining of a qualified product which is tangible personal property except food or beverage prepared in the same building as a retail establishment in which such property is sold.
  - Manufacturing – materially changing the form or function of tangible personal property (parts and components) to create a new item of tangible personal property.
  - Production – only includes agricultural or chemical production.
  - Refining – purifying a substance into a useful and higher-value product.
- QPA must substantially transform the tangible personal property into a form that is fundamentally different from the original constituent elements, materials, inputs, or subcomponents.
- Establishing QPA based on principal business activity code.
  - For property placed in service after July 4, 2025 and on or before Dec. 31, 2025, the notice provides NAICS codes guidance listed under sectors 31, 32, or 33, or under subsectors 111 or 112.
- Examples provided in the notice regarding qualifying activities.



# LEASE CONSIDERATIONS

- **Notice 2026-16**

- The lessor generally cannot elect the 100% QPP deduction because the lessor is not treated as the user of the property.
- Notice 2026-16 provides exceptions for certain leases.
  - Consolidated group members
  - Commonly controlled pass-through entities or persons
- If a member of a consolidated group owns and leases property to another member in the group, the consolidated group is treated as a single taxpayer. The leased property's satisfaction of the integral part test is determined by reference to the business activities of the lessee subsidiary.
- A pass-through or individual lessor determines if property is QPP based upon the commonly controlled person's/entity's trade or business activities.
  - 50% or more owned, directly or by attribution under IRC Sections 267(b) or 707(b)



# USED PROPERTY EXCEPTION

- **Notice 2026-16**

- Generally, QPP is MACRS property for which the original use in a QPA commences with the taxpayer and is placed in service after July 4, 2025 and before January 1, 2031.
- Construction must begin after January 19, 2025, to qualify as QPP
- Exception to the original use requirement (used property)
  - Property not used in a QPA by any person at any time during the period beginning on January 1, 2021 to May 12, 2025.
  - The property was not used by the taxpayer at any time prior to acquisition.
  - The acquisition meets the requirements of IRC Section 179 and the regulations thereunder.
    - Not acquired from a related party under IRC Sections 267(b) or 707(b) or a component member of a controlled group.
    - Basis of the property is not determined by the adjusted basis of the person the property was acquired from.
    - Any cost of the property is not determined by reference to a substitute basis.



# DE MINIMIS RULES, DUAL-USE, AND REASONABLE ALLOCATION METHODS

- **Notice 2026-16**

- QPP = must be used as an integral part of a QPA and relates only to the physical space where those activities take place.
  - Eligible and ineligible property
  - De minimis rules if 95% of the space relates to a QPA, the entire property can qualify for special depreciation deduction
  - Unit-of-property and integrated facilities
  - Dual-use infrastructure
- Once eligible QPP is identified a taxpayer must allocate basis to the property using a reasonable allocation methodology.
  - Square footage, cost segregation data, architectural and engineering plans, process diagrams, or construction invoices
  - May use multiple methods but each method must be consistently applied
  - Redetermination of basis
- Examples provided in the notice regarding qualifying activities.



# HOW TO MAKE THE ELECTION

- **Notice 2026-16**

- An election to take the special depreciation deduction is made by each person owning QPP (each member of a consolidated group) by attaching a statement to a timely filed Federal income tax return for the year QPP is placed in service. The statement includes the following items:
  - Name and taxpayer identification number
  - Description of the QPP
  - Amount of the total unadjusted basis of the property and the amount of the eligible basis if less than the total basis
  - The dollar amount of the eligible basis designated as QPP for which a deduction is being claimed
  - A declaration if the de minimis rule is being applied to the property for which an election is being made
- Once made the QPP election can only be revoked by filing for a private letter ruling.



# RECAPTURE CONSIDERATIONS

- **Notice 2026-16**
  - Depreciation recapture provisions apply if there is a change in use of the property and it is no longer used in a QPA within a 10-calendar-year period beginning on the date the QPP is placed in service.
    - Disqualified property
    - Gain recognized on disqualified property
    - Adjusted basis of disqualified property
    - Depreciation of disqualified property
    - Ineligibility for certain other elections
  - Examples provided in the notice regarding applying the change in use and treatment of disqualified property.



# COST SEGREGATION ILLUSTRATION: WAREHOUSE (NOT QPP ELIGIBLE)



	Warehouse Without Cost Seg	Warehouse - With Cost Seg				Tax Savings		
	39 Year Recovery Period	3, 5, 7, and 15- Year Bonus Eligible Property	QPP	39 Year Recovery Period	Total	Depreciation Difference	Tax Rate	Tax Difference
<b>Acquired Value</b>	\$ 20,000,000	\$ 6,000,000	\$ -	\$ 14,000,000	\$ 20,000,000			
<b>Bonus Depreciation %</b>		100%	100%					
<b>Depreciable Basis</b>	\$ 20,000,000	\$ -	\$ -	\$ 14,000,000	\$ 14,000,000			
<b>Year</b>								
2025	\$ 277,778	\$ 6,000,000	\$ -	\$ 194,444	\$ 6,194,444	\$ 5,916,667	25.0%	\$ (1,479,167)
Each Year 2026-2063	512,821			358,974	358,974	(153,846)	25.0%	38,462
2064	235,043			164,530	164,530	(70,513)	25.0%	17,628
	\$ 20,000,000	\$ 6,000,000	\$ -	\$ 14,000,000	\$ 20,000,000	\$ (0)		\$ 0

Net Present Value of Tax Savings @ 8%

1,023,334

# COST SEGREGATION ILLUSTRATION: MANUFACTURING FACILITY (QPP ELIGIBLE)



	Manufacturing Facility Without Cost Seg	Manufacturing Facility - With Cost Seg				Tax Savings		
	39 Year Recovery Period	3, 5, 7, and 15-Year Bonus Eligible Property	QPP	39 Year Recovery Period	Total	Depreciation Difference	Tax Rate	Tax Difference
<b>Acquired Value</b>	\$ 20,000,000	\$ 6,000,000	\$ 10,600,000	\$ 3,400,000	\$ 20,000,000			
<b>Bonus Depreciation %</b>		100%	100%					
<b>Depreciable Basis</b>	\$ 20,000,000	\$ -	\$ -	\$ 3,400,000	\$ 3,400,000			
<b>Year</b>								
2025	\$ 277,778	\$ 6,000,000	\$ 10,600,000	\$ 47,222	\$ 16,647,222	\$ 16,369,444	25.0%	\$ (4,092,361)
Each Year 2026-2063	512,821			87,179	87,179	(425,641)	25.0%	106,410
2064	235,043			39,957	39,957	(195,085)	25.0%	48,771
	\$ 20,000,000	\$ 6,000,000	\$ 10,600,000	\$ 3,400,000	\$ 20,000,000	\$ (0)		\$ 0

**Net Present Value of Tax Savings @ 8%      2,831,224**



# **BUSINESS INTEREST EXPENSE LIMITATION: ENHANCEMENTS & OPPORTUNITIES**

# BUSINESS INTEREST EXPENSE LIMITATION

- **Amendments by OBBBA effective for tax years beginning after Dec. 31, 2024**
  - Permanently reinstates calculation of adjusted taxable income (ATI) for purposes of Sec. 163(j) limitation on basis of EBITDA instead of EBIT
  - Floor plan financing rules also expanded to “certain trailers and campers”
- **Amendments by OBBBA effective for tax years beginning after Dec. 31, 2025**
  - Taxpayers can no longer electively capitalize interest expense to avoid application of Sec. 163(j) (only interest expense capitalized under Secs. 263A(f) and 263(g) not subject to the limitation)
  - ATI is computed without regard to Subpart F, NCTI/GILTI, Sec. 78 gross-up, and related Secs. 245A/250 deduction amounts



# SECTION 163(J) MINI-CALCULATION: WHY EBITDA ATI MATTERS

- Assumptions:
  - Calendar-year domestic manufacturer subject to Sec. 163(j)
  - No business interest income, floor plan financing interest, NOL, or Sec. 199A deduction

<b>Item</b>	<b>Amount</b>
Business interest expense	\$3.0M
Tax EBITDA	\$12.0M
Tax depreciation and amortization	\$6.0M
Tax EBIT	\$6.0M

# SECTION 163(J) MINI-CALCULATION: WHY EBITDA ATI MATTERS

	EBIT-based ATI	EBITDA-based ATI
Tax EBITDA	\$12.0M	\$12.0M
Less: depreciation and amortization	\$(6.0M)	—
Adjusted taxable income	<b>\$6.0M</b>	<b>\$12.0M</b>
Sec. 163(j) limit — 30% of ATI	<b>\$1.8M</b>	<b>\$3.6M</b>
Business interest expense	\$3.0M	\$3.0M
Deductible business interest	<b>\$1.8M</b>	<b>\$3.0M</b>
Disallowed interest carryforward	<b>\$1.2M</b>	<b>\$0.0M</b>
Incremental current deduction from EBITDA ATI		<b>\$1.2M</b>
Approx. federal tax benefit at 21%		<b>\$252K</b>

# BUSINESS INTEREST EXPENSE LIMITATION

- **Strategies to convert ordinary deductions into depreciation / amortization expense for tax years beginning after Dec. 31, 2024**
  - Do not make the de minimis safe harbor election under Treas. Reg. Sec. 1.263(a)-1(f)
  - Elect to capitalize repairs under Treas. Reg. Sec. 1.263(a)-3(n)
  - Elect to capitalize employee compensation and overhead as costs to facilitate the acquisition of or production of tangible property under Treas. Reg. Sec. 1.263(a)-2(f)
  - Elect to capitalize and depreciate rotatable, temporary, or standby emergency spare parts under Treas. Reg. Sec. 1.162-3(d)
  - Apply methods under UNICAP (263A) to maximize capitalization of costs to self-constructed property
  - Elect to capitalize domestic R&E under Sec. 174A(c) or with 59(e) election
  - Elect to capitalize prepaid insurance premiums and governmental licensing fees/permits





# RESEARCH & EXPERIMENTAL (R&E) COSTS

# NEW SECTION 174A R&E EXPENSE

- **New Sec. 174A added by OBBBA – applies to amounts paid or incurred in taxable years beginning after Dec. 31, 2024**
  - Permanently reinstates the deduction for domestic R&E
  - May elect to capitalize and amortize over a period of not less than 60 months or make a Sec. 59(e) election (10-yr amortization)
  - Foreign R&E still required to be capitalized and amortized over a 15-year period under Sec. 174
  - Software development is still considered an R&E expenditure



# SECTION 280C(c)

- **Section 280C(c) prior to amendment by OBBBA**
  - Domestic R&E capitalized under Sec. 174 must be reduced by the excess, if any, of the R&D credit over the amount allowable as a deduction for qualified research expenses or basic research expenses, unless the reduced credit election is made
    - *R&D credit almost never exceeded the deduction, thus no impact under Sec. 280C(c) prior to amendment by OBBBA*
- **Section 280C(c) as amended by OBBBA – applies to taxable years beginning after Dec. 31, 2024**
  - Domestic R&E deduction under Sec. 174A must be reduced by the amount of the R&D credit claimed, unless the reduced credit election is made



# TRANSITION RULES

- **Transition rules for domestic R&E capitalized under pre-OBBBA Section 174**

- Cut-off basis – continue amortizing domestic R&E capitalized under pre-OBBBA Sec. 174
- Statutory elections – accelerate deductions for domestic R&E capitalized under pre-OBBBA Sec. 174
  - Any taxpayer may elect to deduct any remaining unamortized domestic R&E in first year beginning after Dec. 31, 2024, or over the 2-taxable year period beginning with the first taxable year beginning after Dec. 31, 2024
  - Taxpayers that meet the definition of an eligible small business for first year beginning after Dec. 31, 2024 (<\$31 million average annual gross receipts + not a tax shelter) may instead apply Sec. 174A and Sec. 280C(c), as amended by the OBBBA, retroactively to 2022-2024 tax years
    - Effectuated either (1) via a combination of original returns/amended returns/AARs filed no later than July 6, 2026\* or (2) with a method change filed with an original 2024 tax return filed after Aug. 28, 2025

*\* May not be filed later than allowed under the statute of limitations*

# PROCEDURAL GUIDANCE

- **Procedural guidance provided in Rev. Proc. 2025-28**
  - Eligible small businesses electing to retroactively apply Sec. 174A and Sec. 280C(c), as amended by the OBBBA, retroactively to 2022-2024 tax years
    - Option 1: Combination of original returns/amended returns/AARs – required election statement (absent “deemed election”)
    - Option 2: Automatic method change – statement allowed in lieu of Form 3115
  - Eligible small businesses revoking or making a late reduced credit election under Sec. 280C(c)
    - Requires amended returns/AARs filed no later than July 6, 2026\*

*\*May not be filed later than allowed under the statute of limitations*

# PROCEDURAL GUIDANCE

- **Procedural guidance provided in Rev. Proc. 2025-28**
  - Automatic method change for a 2025 tax year to comply with Sec. 174A (immediately expense under Sec. 174A(a) or elect to capitalize & amortize under Sec. 174A(c))
    - Immediate deduction method – made on cutoff basis, unless year of change is later than first taxable year beginning after Dec. 31, 2024 (modified Sec. 481(a) adjustment)
    - Election to capitalize & amortize – made on cutoff basis
    - Statement allowed in lieu of Form 3115
  - Automatic method change for statutory election to deduct remaining unamortized domestic R&E in first year beginning after Dec. 31, 2024, or over the 2-taxable year period beginning with the first taxable year beginning after Dec. 31, 2024
    - Generally, must be made for first taxable year beginning after Dec. 31, 2024 – made on cutoff basis
    - If taxpayer filed a 2025 return on or before Sept. 15, 2025, this change may be made for a subsequent tax year – made with modified Sec. 481(a) adjustment
    - Statement allowed in lieu of Form 3115



# PROCEDURAL GUIDANCE

- **Procedural guidance provided in Rev. Proc. 2025-28**
  - Automatic method change for treatment of domestic R&E under TCJA Sec. 174
  - Automatic method change for treatment of foreign R&E



# OTHER MODIFICATIONS

- **Section 41 – R&D Tax Credit**

- Definition of qualified research changed from “may be treated as R&E under Sec. 174” to “are treated as domestic R&E under Sec. 174A” (applies to amounts paid or incurred in taxable years beginning after Dec. 31, 2024)

- **Section 174(d) – Disposition, Retirement, or Abandonment of Foreign R&E**

- Amendment by OBBBA clarifies there is “no deduction or reduction to amount realized” upon disposition (applies to dispositions after May 12, 2025)
- Provision should not be construed to create “any inference” with respect to proper application of Sec. 174(d) prior to amendment



# SECTION 174A TRANSITION DECISION TREE

Cost pool	Decision path	Federal result / action item
2025+ domestic R&E	Default rule under new Sec. 174A	Current deduction generally allowed.
2025+ domestic R&E — planning election	Does the taxpayer want to defer deductions?	Consider electing Sec. 174A(c) capitalization and amortization over <b>not less than 60 months</b> , or consider Sec. 59(e) 10-year amortization where relevant.
2025+ foreign R&E	Foreign research remains under Sec. 174	Continue 15-year amortization.
2022–2024 domestic R&E previously capitalized / amortized under TCJA Sec. 174	Is the taxpayer an eligible small business under Sec. 448(c) and not a tax shelter?	If yes, consider retroactive application of Sec. 174A and amended Sec. 280C(c) to 2022–2024.
2022–2024 domestic R&E — any taxpayer	If not using retroactive small-business relief, choose treatment for remaining unamortized domestic balance	Option 1: Continue amortization. Option 2: Deduct all remaining unamortized domestic R&E in first tax year beginning after Dec. 31, 2024. Option 3: Deduct remaining balance ratably over two tax years.
2022–2024 foreign R&E	No comparable domestic acceleration rule	Continue 15-year amortization.
R&D credit claim	Coordinate with Sec. 280C(c)	Domestic R&E deduction or capitalized amount is reduced by the Sec. 41 credit unless a reduced credit election is made.





# FDDEI DEDUCTION PLANNING

# FDII BECOMES FDDEI: THE MATH CHANGED

- Foreign-derived intangible income (FDII) renamed foreign-derived deduction eligible income (**FDDEI**) for tax years beginning after **December 31, 2025**.
- Deduction percentage: **37.5%** ➡ **33.34%**, producing an approximately **14% ETR** compared to a corporate 21%.
- **QBAI / deemed tangible income return eliminated** – no more 10% tangible-asset hurdle.
- **Interest expense and R&E expenses no longer reduce DEI/FDDEI.**
- Post-June 16, 2025 sales or deemed dispositions of IP, Sec. 367(d) property, or depreciable, amortizable, or depletable property are excluded from DEI.



# MODELING: WHO WINS, WHO MAY NOT

<u>Scenario</u>	<u>Old FDII result</u>	<u>New FDDEI result</u>	<u>Planning takeaway</u>
<b>Capital-intensive exporter:</b> DEI \$100; FDDEI ratio 80%; QBAI \$500	DII = \$50; FDII = \$40; deduction = <b>\$15</b>	FDDEI = \$80; deduction = <b>\$26.7</b>	<b>Big upside from QBAI removal</b>
<b>R&amp;E / interest-heavy exporter:</b> \$100 foreign-derived margin before \$40 interest / R&E; no QBAI	Deduction = <b>\$22.5</b>	Theoretical deduction = \$33.3, but if taxable income is only \$60, §250 cap reduces deduction to <b>\$20.0</b>	<b>Model taxable-income limitation, not just DEI</b>



# REVISIT CALCULATION MECHANICS FOR OPPORTUNITIES

- Model §174A R&E elections, prior Sec 174 amortization, bonus depreciation, NOLs, and Sec 163(j) against the Sec 250 taxable-income cap.
  - Model immediate expensing vs Sec 174A(c) amortization, especially for high-FDDEI taxpayers that are taxable-income limited.
  - Consider electing out of bonus by class of property or using transition elections where available if preserving current year Sec 250 benefit is more valuable than acceleration
  - Watch pre-2018 NOLs as they can absorb taxable income and permanently displace Sec 250 benefit
  - Highly leveraged exporters need multi-year modeling. A Sec 163(j) limitation may increase current year Sec 250 benefit but that is not necessarily a permanent benefit if interest is used later.
- Sec 250 Ordering Rules – Circularity issues among taxable income limit still not resolved.
  - Treasury and IRS allow taxpayer to use any reasonable method, consistently.



# MAXIMIZING THE DEDUCTION

- Revisit taxpayers that historically had little or no FDII because of high QBAI, interest, or R&E.
- Refresh foreign-derived revenue mapping: property sales, licenses, leases, services, related-party sales, and partnership Schedules K-2/K-3 inputs.
- Strengthen substantiation: foreign customer, foreign use, services performed for non-U.S. persons or non-U.S. property, and related-party ultimate foreign use.
- Focus on aligning commercial contracts, transfer pricing, R&E location, manufacturing footprint, and deduction timing so that more U.S. taxable income is qualifying foreign-derived income.





# OTHER BUSINESS PROVISIONS

# WHAT EMPLOYERS SHOULD KNOW – OVERTIME AND TIPS

## Qualified overtime

- Income tax deduction up to \$12,500 (\$25,000 for joint return)
- Qualified overtime generally means overtime compensation required under FLSA Sec. 7 that exceeds the regular rate
- Must be separately reported on a Form W-2 or Form 1099

## Qualified Tips

- Income tax deduction up to \$25,000 in qualified tips in a customarily and regularly tipped occupation
- Qualified tips – cash, credit, tip sharing; must be voluntary
- Must be separately reported on a Form W-2 or 1099 along with occupation

*Both retroactively effective January 1, 2025 – December 31, 2028*

# CHARITABLE CONTRIBUTIONS

Corporations (applies to taxable years beginning after December 31, 2025):

- Section 170(b)(2)(A) is amended to allow a charitable contribution deduction only to the extent that the aggregate contributions
  - exceeds 1 percent of the taxpayer's taxable income for the taxable year, **and**
  - does not exceed 10 percent of the taxpayer's taxable income for the taxable year
- Amounts in excess of the 10 percent taxable income limitation may be carried forward to the subsequent five taxable years
  - Contribution carryovers shall be treated as allowed on a first-in first-out basis.
  - Any carryforward is applied after contributions made in the current taxable year for the purposes of the 1 percent floor and 10 percent limit.
- Contributions disallowed by the 1 percent floor carried forward are carried forward only from years in which the 10 percent limitation is exceeded.
  - Here the 1 percent floor is not permanently disallowed and may be utilized in the subsequent five taxable years where the 1 percent floor is exceeded.

Hypothetical Example - \$1,000,000 taxable income (\$10,000 1% floor, \$100,000 10% of taxable income)

- If only \$5,000 of contributions are made no deduction is allowed and the \$5,000 deduction is lost forever (no carryforward).
- If \$60,000 of contributions are made, then \$50,000 is allowed as a deduction.
- If \$120,000 of contributions are made, then the deduction is \$90,000 for the year with the \$20,000 excess available for the 5-year carryforward along with the \$10,000 1% floor. A total of \$30,000 GTD created (we think) subject to separate tracking.

***Given the differing interpretations of the Statute, clarifying guidance is needed regarding the intent of this provision.***



# INDIVIDUAL TAX PROVISIONS

# Pass-Through Entity & Sole Proprietorship Owners

1

## QBI Deduction (Sec. 199A)

- Permanently extends the 20% deduction
- Expands phase-out thresholds: \$100K→\$150K (MFJ) and \$50K→\$75K (all other taxpayers)
- Introduces \$400 minimum deduction for taxpayers with at least \$1,000 of QBI

2

## PTET SALT Workaround

Unlike earlier versions of the bill, no federal limitation. Permitted for all pass-through entities

3

## Excess Business Loss Limitation

- Permanently extends the EBL limitation with current treatment of carryovers
- Disallowed losses convert to NOLs without mandatory re-testing



# 1040 Rates, Deductions, and Credits

## Tax Rates and Standard Deduction

- TCJA's 7-bracket rate structure (10–37%) made permanent
- Enhances inflation indexing at lower brackets
- Permanently increases standard deduction with annual inflation indexing
  - Single & MFS: \$15,750
  - MFJ: \$31,500
  - HoH: \$23,625

## Credits and Deductions

- Personal Exemptions: Permanently repealed
- Child Tax Credit: Raised to \$2,200 per child; \$1,700 refundable
- Other Dependent Credit: \$500 made permanent
- Senior Deduction: Temporary \$6,000 additional deduction (2025–2028)
- Auto Loan Interest: Above-the-line deduction for up to \$10,000 (2025–2028)
- Adoption Credit: \$5,000 made refundable; indexed for inflation

*Inflation indexing applies after the stated 2025 increase*



# Charitable Contributions

**0.5% AGI Floor for Itemized Charitable Deductions:** For individuals who itemize, only the amount of charitable contributions exceeding 0.5% of the taxpayer's adjusted gross income (AGI) is deductible. This new floor applies to taxable years beginning after December 31, 2025.

**Carryforward Rules:** Amounts disallowed by the 0.5% floor can be carried forward for up to five years, but only from years in which the limitation is exceeded.

**Permanent 60% AGI Limit for Cash Contributions:** The 60% AGI limit for cash contributions to public charities, which was previously temporary, is made permanent and applies to taxable years beginning after December 31, 2025.

**Above-the-Line Deduction for Non-Itemizers:** For individuals who do not itemize, a deduction of up to \$1,000 (\$2,000 for joint filers) for cash contributions to certain public charities is allowed, beginning with taxable years after December 31, 2025.

**Limitation on the Tax Benefit of Itemized Deductions:** The overall benefit of itemized deductions, including charitable contributions, is limited to a maximum tax benefit of 35% for high-income taxpayers, effective for taxable years beginning after December 31, 2025.

# Itemized Deductions

## SALT Cap Changes

1

- Retroactively increased from \$10,000 to \$40,000 (\$20,000 MFS) for 2025
- 1% increase for 2026-2029, reverting to \$10,000 in 2030
- Phased out above \$500,000 MAGI (\$250,000 MFS) in the 2025 tax year (with later increases)
- Amount allowed cannot be less than \$10,000
- Does not apply to taxes paid by pass-through entities

2

## Other Itemized Deductions

- "Pease" limitation permanently repealed
- 35% tax benefit cap for top-bracket filers
- Miscellaneous itemized deductions permanently eliminated
- Mortgage interest: \$750,000 acquisition indebtedness limit made permanent
- Casualty loss: Limited to declared disasters, expanded to include state-declared disasters
- Wagering losses: Losses from wagering transactions limited to 90% of such losses, not to exceed winnings.

# Other Provisions Related to Individuals

## \$15M

### Estate Tax Exemption

Permanently increases exemption to \$15 million (indexed from 2026)

## 50%

### AMT Phase-out Rate

Increased from 25% to 50%, with higher exemption and phase-out thresholds made permanent

### New Accounts & Expanded 529 Plans

- Trump Accounts (Sec. 530A): New IRA-type accounts with \$1,000 credit for children with a Social Security number born 2025–2028
  - Annual contributions limited to \$5,000; no distributions allowed prior to age 18
- 529 plan expenses expanded to include additional K-12 (including homeschool) and postsecondary credentialing expenses





# STATE TAX CONFORMITY

# STATE IRC CONFORMITY

- Application to the OBBBA
  - Rolling conformity states adopt the OBBBA as of the date of federal enactment
  - Some states previously decoupled from select provisions or have since enacted legislation to decouple or modify OBBBA provision.
- Fixed-date conformity states likely may adopt a version of the IRC prior to the enactment of the OBBBA and will not automatically conform to the new federal provisions
  - Several fixed-date states have updated fixed-date conformity to the OBBBA, but many have decoupled or modified OBBBA provisions
- Complexities with the OBBBA
  - New provisions created under IRC sections that did not exist prior to the OBBBA
  - Provisions enacted under P.L. 119-21 that are not codified in the IRC







# STATE IRC CONFORMITY

- When states do not conform to sections of the IRC, that creates differences (either permanent or temporary) in the gross deferred tax asset/liabilities bases to be used for calculating the federal deferred tax asset/liability versus the state deferred tax asset/liability
- Common areas for non-conforming treatment resulting in potentially material considerations for provisions include:
  - Section 163(j): Business interest expense limitations
  - Section 168(k) and 168(n): Bonus depreciation and qualified production property
  - Section 174A/174: Domestic and foreign R&E costs, including transition / catch-up rules
  - International provisions: Sec. 951A NCTI/GILTI, Sec. 250 FDDEI/NCTI deductions, foreign tax credits, and BEAT



# STATE IRC CONFORMITY

PROVISION	OBBBA	SALT Considerations
<p>Depreciation</p> 	<ul style="list-style-type: none"> <li>• Bonus depreciation: 100% for certain qualified assets placed in service on or after 1/19/25; made permanent.</li> <li>• Real property: 100% for certain qualified production property (for construction beginning after 1/19/25, before 1/1/29 and placed in service by 12/31/30)</li> </ul>	<ul style="list-style-type: none"> <li>• Most states already decouple from federal bonus depreciation under Section 168(k)</li> <li>• Some states continue to be tied to TCJA bonus phase-out</li> <li>• New Section 168(n) may not be addressed by many states</li> </ul>
<p>Research Expenditures</p> 	<ul style="list-style-type: none"> <li>• US R&amp;E: Immediate expensing made permanent (effective 2025) with elective capitalization</li> <li>• Foreign R&amp;E: Remains at 15 years</li> <li>• Prior Section 174 costs: Various options to accelerate deductions for amortized domestic R&amp;E expenses incurred in 2022 through 2024</li> </ul>	<ul style="list-style-type: none"> <li>• Expect states to carefully consider budgets and take more than one year to fully consider conformity</li> <li>• Section 174A provisions are anticipated to have the most significant (negative) impact to state budgets from the OBBBA tax provisions</li> </ul>
<p>Interest Expense</p> 	<ul style="list-style-type: none"> <li>• The EBIT-based computation is replaced with an EBITDA-based computation, allowing more interest to be deducted (effective 2025)</li> </ul>	<ul style="list-style-type: none"> <li>• Some states that conform to Section 163(j) may continue to follow the EBIT-based calculation, further limiting interest expense deductions as compared to federal</li> </ul>
<p>International</p> 	<ul style="list-style-type: none"> <li>• For tax years beginning after Dec. 31, 2025, GILTI is renamed NCTI; the QBAI / deemed tangible return concept is eliminated; Sec. 250 deduction percentages change to 40% for NCTI and 33.34% for FDDEI; tested-income deemed-paid FTC percentage increases from 80% to 90%; BEAT rate increases to 10.5%</li> </ul>	<ul style="list-style-type: none"> <li>• State treatment will vary. Some states may conform to the new federal mechanics, while others retain existing GILTI addbacks, subtractions, DRDs, or apportionment relief. Model state tax base, apportionment, and ASC 740 impacts separately.</li> </ul>



# PRACTICAL CONSIDERATIONS

- For state filing purposes, you will need several state-specific calculations
  - Section 163(j) example for 2026 reporting year:
    - Conforms to OBBBA, with varying exceptions (EBIT vs EBITDA)
  - Section 174A/174 considerations
    - May need Section 174 study / calculation of domestic R&E expenditures for state purposes even if not required for federal purposes
    - States may conform differently to Section 174/174A depending on the tax year
    - States may be bound to federal elections to capitalize costs
    - State conformity to the 2022 – 2024 domestic R&E catch-up / transition rules should be analyzed separately from conformity to 2025+ domestic R&E expensing.
  - State depreciation conformity
    - May follow TCJA provisions, but not OBBBA provisions, and vice versa
  - NCTI/GILTI and FDDEI considerations
    - May need separate state calculations for Sec. 951A / NCTI inclusions, Sec. 250 deductions, foreign tax credit impacts, and state-specific GILTI/NCTI subtractions or DRDs.
    - Confirm whether the state conforms to the new federal NCTI mechanics or merely starts with federal taxable income and then applies a specific inclusion, addback, subtraction, or apportionment rule.



# SELECTED SOUTHEAST STATE CONFORMITY SNAPSHOT

State	Overall conformity posture	§163(j) business interest	§174A / §174 R&E	Bonus depreciation / QPP
Georgia	Fixed-date conformity updated to Jan. 1, 2026, but with targeted decoupling from key OBBBA provisions.	Does not conform to OBBBA §163(j); applies pre-TCJA conformity approach.	Does not conform to new §174A; applies pre-TCJA §174 treatment.	Does not conform to §168(k) bonus or new §168(n) QPP.
Tennessee	Starts with federal taxable income/net earnings but has specific statutory decoupling rules.	Does not conform to OBBBA §163(j); applies §163(j) as it existed before TCJA.	Mixed mechanics; generally favorable result. Domestic R&E generally follows Federal Sec. 174A current expensing. Foreign R&E is generally deductible because TN specifically applies Sec. 174 as it existed before TCJA.	Does not conform to OBBBA 100% bonus/QPP; §168 is generally applied under TCJA rules for assets purchased on or after Jan. 1, 2023.
South Carolina	Fixed-date conformity to IRC as amended through Dec. 31, 2024; OBBBA not automatically adopted.	Does not conform; §163(j) specifically not adopted.	Does not conform to §174A because OBBBA post-dates current conformity date; TCJA §174 treatment generally continues unless updated.	Does not conform; §168(k) and §168(n) specifically not adopted.
North Carolina	Fixed-date conformity to IRC as of Jan. 1, 2023; OBBBA not automatically adopted.	Does not conform to OBBBA EBITDA-based §163(j); generally follows pre-OBBBA §163(j) rules under current conformity date.	Does not conform to §174A; TCJA §174 capitalization/amortization generally continues.	Does not conform to OBBBA bonus/QPP under current conformity date. Existing NC depreciation addback regime may apply if special accelerated depreciation under §168(k) is otherwise claimed/adopted.  NC does not currently conform to Sec. 168(n); if NC later updates conformity without decoupling, evaluate whether NC's accelerated depreciation addback / recovery regime applies.

As of June 10, 2026

# SELECTED SOUTHEAST STATE CONFORMITY SNAPSHOT

State	Overall conformity posture	§163(j) business interest	§174A / §174 R&E*	Bonus depreciation / QPP
Alabama	Rolling conformity, subject to Alabama-specific modifications. Confirm treatment of Sec. 174A and Sec. 168(n) before filing.	Generally conforms, modified; federal §163(j) is applied, but Alabama requires a separate-entity or Alabama consolidated group computation.	Modified / not pure §174A conformity; Alabama allows R&E costs to be currently deducted or deferred under pre-2022 §174 concepts.	Generally conforms to federal depreciation changes unless a specific Alabama adjustment applies; no broad bonus/QPP decoupling identified in the reviewed statutory rules.
Kentucky	Recent legislation enacted to update IRC conformity date to the IRC in effect on December 31, 2025. This change applies to tax years beginning on or after January 1, 2026.	Does not conform to OBBBA §163(j). For determining the business interest limitation, Kentucky uses Sec. 163(j) as in effect on December 31, 2024.	Modified conformity. For tax years beginning on or after Jan. 1, 2026, Kentucky adds back the federal deduction for domestic R&E under §174A and allows a deduction for domestic R&E under §174 as that section existed on Dec. 31, 2024. Track federal/state differences and any 2022–2024 catch-up treatment separately.	Does not conform to OBBBA bonus/QPP. Kentucky has long-standing depreciation decoupling for post-Sept. 10, 2001 property by reference to older §168 rules.
Florida	Fixed-date conformity to IRC as of Jan. 1, 2025; future federal amendments apply only if expressly adopted.	Does not conform to OBBBA §163(j); pre-OBBBA §163(j) continues.	Does not conform to §174A; TCJA §174 treatment generally continues.	Does not conform to OBBBA 100% bonus/QPP. Florida already requires addback of §168(k) bonus depreciation with later subtraction recovery.

**\* R&E transition reminder:** State conformity to Sec. 174A does not automatically answer whether the state conforms to the federal 2022-2024 domestic R&E amortization. Track federal and state domestic R&E balances separately.



# ASU 2023-09: IMPROVEMENTS TO INCOME TAX DISCLOSURES

# ASU 2023-09 EXPLAINED

## Effective date

- **PBEs:** Effective annual periods beginning after **Dec. 15, 2024.**
  - **All others:** Effective annual periods beginning after **Dec. 15, 2025.**
- Requires rate reconciliation with specified categories (see next slide)
    - Reconciling items that exceed the 5% threshold but do not fall within these categories must also be separately disclosed by nature
    - All reconciling items to be presented on gross basis, unless specific guidance permits net presentation
  - All entities must also disclose, annually, on a disaggregated basis:

## Transition

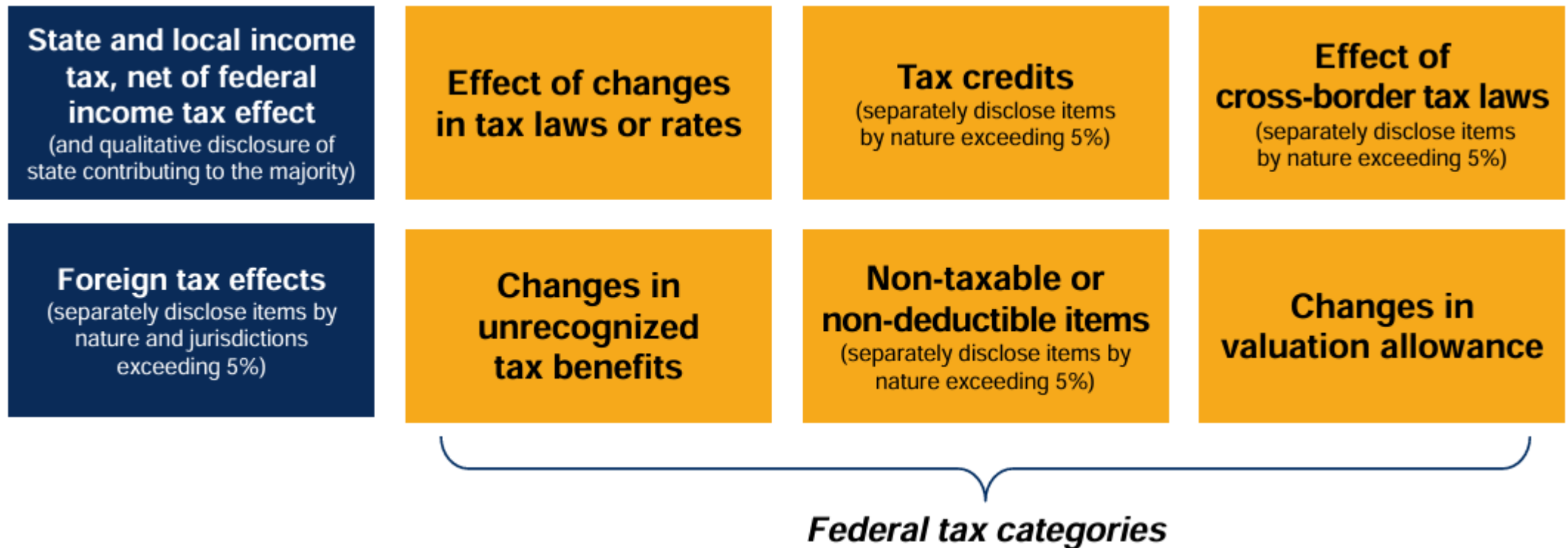
- **Required:** Prospectively
  - **Optional:** Retrospectively
- Income taxes paid (net of refunds received)
  - Income (loss) from continuing operations before income tax
  - Income tax expense (benefit) from continuing operations



# ASU 2023-09 EXPLAINED

## Rate reconciliation - PBE

Public entities must disclose a tabular rate reconciliation, on an annual basis and in both dollars and percentages, including, at a minimum, the following categories:



# ASU 2023-09 EXPLAINED

## Rate Reconciliation - PBE

Provide additional detail for reconciling items that meet a specified quantitative threshold—specifically, those for which the effect is equal to or exceeds 5 percent of the amount calculated by applying the applicable statutory income tax rate to pretax income (or loss).

ASC 740-10-50-12A

## Other Than Public Business Entities

Nonpublic business entities will be required to provide qualitative disclosures about specific categories and individual jurisdictions that result in significant differences between the statutory tax rate and the effective tax rate



# ASU 2023-09 EXPLAINED

## Eliminations

Eliminates the requirement to disclose:

### Uncertain tax benefits

- The nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months; or
- A statement that an estimate of the range cannot be made

### Deferred tax liability not recognized

- The cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures



# ASU 2023-09 EXPLAINED

## State Tax Expense Disclosure

- Public business entities are required to “provide a qualitative description of the states and local jurisdictions that make up the majority (greater than 50 percent) of the effect of the state and local income tax category.” ASC 740-10-50-12B
- “For the purposes of identifying the majority of the effect, a public business entity shall begin with the state or local jurisdiction that has the largest effect and in descending order add states or local jurisdictions with the next largest effect until the aggregated effect is greater than 50 percent.” ASC 740-10-50-12B



# ASU 2023-09 EXPLAINED

## Income Taxes Paid

- All entities will be required to disclose income taxes paid, net of refunds received, disaggregated by federal, state, and foreign taxes on an annual basis.
- Income taxes paid, net of refunds received, will be disaggregated by individual jurisdiction on the basis of a quantitative threshold of 5% of total income taxes paid, net of refunds received.
- The 5% threshold will be calculated from the absolute value of each jurisdiction over the value of the total income taxes paid, net of refunds received.
  - Denominator = total taxes paid, net of refunds
  - Numerator = total absolute value by each jurisdiction (could be net income taxes paid or net refund)
    - EXAMPLE: tax payments to a jurisdiction are \$50,000 and refunds are \$9,500, then the 'threshold' calculation is the net impact of \$40,500.



# ASU 2023-09 EXPLAINED

## Discussion Points

- Prospective vs. Retrospective adoption
- Use of blended state rate for state tax deferred computations vs. separate state calculations
  - State specific deferred tax balances (i.e. Sec 174 and Sec 163(j))
- Applying absolute value requirement when applying the 5 percent disaggregation threshold for income taxes paid (net of refund)
- State qualitative disclosure
- Consult with attest firm on expectations of adoption





# THANK YOU

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