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BRADY WARE

Unpacking the “One Big Beautiful Bill Act”

The Impact on Business Owners and Individuals

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Discussion Areas

1. Federal Tax Implications
2. Individual Highlights
3. Q&A

FEDERAL IMPLICATIONS

Date of Enactment: July 4

- July 1 | Passed Senate 51-50
- July 3 | Passed House 218 to 214
- July 4 | Signed by President

3 Key Business Provisions

Section 174
- Foreign vs Domestic
- Transition
- Credit Impact

Section 163(j)
- Interest Capitalization
- International Impact

Bonus Depreciation
- Effective Date
- Effective Options
- New Category

Section 174 R&E Capitalization

- Section 174 governs the tax treatment of research and experimental (R&E) expenditures.
- It includes costs associated with developing new or improved products, processes, or software.
- Applies broadly to tech, manufacturing, software, life sciences, and more.
- Does not include capital expenditures (Fixed Assets/PPE).
- Key driver of how R&D investments are reflected on your tax return.

Pre-Tax Cuts and Jobs Act (TCJA) Landscape

- Before 2022, businesses could deduct R&E expenses in the year they were incurred.
- Alternatively, companies could elect to amortize over a 5-year period(both domestic and foreign expenses).
- There was no requirement to capitalize or differentiate domestic from foreign research.
- This flexibility supported early-stage innovation and helped manage cash flow effectively.

TCJA Impact (Tax Years 2022 - 2024)

- The TCJA amended §174 to require capitalization of all research and experimentation (R&E) costs incurred in tax years beginning after December 31, 2021.
- Domestic R&E expenditures must be amortized over a 5-year period and international R&E expenditures must be amortized over a 15-year period.
- Depending on the scoring method used, this amendment was intended to generate between $15 and $150 billion in additional revenue over a 10-year period.

The Simple Math

With First Year Expensing

Net Income	$2,500,000
Deducted §174 Expenses	($1,000,000)
Taxable Income	$1,500,000
Tax (@21%)	**$315,000**

With Required Amortization

Net Income	$2,500,000
Deducted §174 Expenses*	$0
1st Year Amortization	($100,000)
Taxable Income	$2,400,000
Tax (@21%)	**$504,000**

*** Taxpayer has $1,000,000 in §174 Expenses but they must be capitalized**

OBBBA: Legislative Overview

- Adds IRC §174A, allowing taxpayers to fully expense domestic R&E expenses paid in tax years beginning after December 31, 2024.
- Foreign research expenditures remain subject to capitalization and amortization.
- Transition options for previously capitalized 174 R&E Expenses:
  - Deduct remaining unamortized amounts in full in tax year 2025.
  - Amortize remaining unamortized amounts over a two-year period (2025 & 2026).

- Retroactive Election for Eligible Small Businesses
  - Less than $31M average prior 3 years Gross Receipts based on first tax year beginning after December 31, 2024
  - Taxpayers may elect to apply full expensing retroactively to 2022, 2023, and 2024.
  - This election allows 2024 domestic R&E to be expensed, but only if accompanied by amended prior-year filings.
  - Election must be made by July 4th, 2026.

Section 163(j) - Interest Expense Limitation

- Pre TCJA - interest paid or accrued on business debt was generally fully deductible, with no cap based on income or EBITDA.
  - The only limitation under old 163(j) applied primarily to corporations with foreign affiliates

- TCJA - New §163(j) was enacted as part of the TCJA in December 2017.
  - Limitation based on 30% of adjusted taxable income (ATI)
    - For tax years 2018–2021, ATI was defined similarly to EBITDA.
    - Beginning in 2022, ATI was calculated based on EBIT (i.e., depreciation and amortization are not added back), which often results in a stricter limit.

- OBBBA – 163(j) modified
  - Taxable years beginning after December 31, 2024 ATI is defined similarly to EBITDA

Section 163(j) – OBBBA Impact

2022-2024 (TCJA)	
Taxable income before interest limit	$700,000
Interest income	($50,000)
Interest Expense	$400,000
ATI	$1,050,000
Interest Limitation	$315,000
Taxable Income after interest limit	785,000
Tax (@21%)	**$164,850**

2025 (OBBBA)	
Taxable income before interest limit	$700,000
Interest income	($50,000)
Interest Expense	$400,000
Depreciation and Amortization	$300,000
ATI	$1,350,000
Interest Limitation (no limit)	$405,000
Taxable Income after interest limit	700,000
Tax (@21%)	**$147,000**

Bonus Depreciation

Pre-TCJA	Post-TCJA
Bonus depreciation for equipment, computer software, and certain improvements to nonresidential real property allows an immediate deduction of 50% for equipment placed in service in 2017, 40% in 2018, and 30% in 2019.	TCJA temporarily allows 100% expensing for business property acquired and placed in service after Sept. 27, 2017 and before Jan. 1, 2023. The 100% allowance generally decreases by 20% per year in taxable years beginning after 2022 and expires Jan. 1, 2027.

Bonus Depreciation

- Under the OBBBA - 100% bonus depreciation permanently restored for property acquired and placed into service after January 19, 2025
- New elective 100% depreciation allowance for qualified production property allowed for construction beginning after January 19, 2025
  - A qualified production activity includes the manufacturing of tangible personal property, agricultural production, chemical production, or refining.

Other Business Changes

- Section 179 – deduction increased to $2.5 million with a phaseout threshold of $4 million for assets placed in service after 2024
- Filing thresholds for Forms 1099-NEC and 1099-MISC increased from $600 to $2,000
- TIPS credit
  - Previously applied to the food and beverage industry only; provides a credit for the FICA paid by the employer on tips
  - OBBBA expanded to include beauty service industry starting in 2025.

Qualified Small Business Stock

Pre-OBBBA	Post-OBBBA
• An active domestic C Corporation with gross assets not exceeding $50 million immediately after stock issuance • 100% capital gain exclusion for qualified stock held five years • Exclusion Limited to the greater of $10 million or 10 times basis	• An active domestic C Corporation with gross assets not exceeding $75 million immediately after stock issuance • 100% capital gain exclusion for qualified stock held five years, 50% after three years, 75% after four years • Exclusion Limited to $15 million

Foreign Tax Changes

- Global Intangible Low-Taxed Income (GILTI)
  - Renamed to “Net CFC Tested Income” (NCTI)
  - Rate Change – reduced to 40% from 50%
- Foreign Derived Intangible Income (FDII)
  - Renamed to “Foreign-Derived Deduction Eligible Income” (FDDEI)
  - Rate Change – reduced to 33.34% from 37.5%

Foreign Tax Changes

- Base Erosion Anti-Abuse Tax (BEAT)
  - Repeals the scheduled rise to 12.5% and instead sets the BEAT rate at 10.5%, while retaining the existing credit-offset mechanics that reduce the BEAT base.
- Section 899
  - Removed due to agreements with G7 countries to exempt U.S. from Pillar Two

Energy Credits

Terminated after Sept. 30, 2025	Terminated after Dec. 31, 2025
• Commercial Clean Vehicle Credit • Previously-owned Clean Vehicle Credit • Clean Vehicle Credit	• Energy-efficient Home Improvement Credit • Residential Clean Energy Credit • Sustainable Aviation Fuel Credit

Energy Credits

Terminated after June 30, 2026	Continued – June 30, 2026

Terminated after June 30, 2026

- Energy Efficient Home Credit
- Alternative Vehicle Refueling Credit
- Energy-efficient Commercial Building Deduction
- Clean Fuel Production Credit

Continued – June 30, 2026

- Clean Electricity Production Credit
- Clean Hydrogen Production Credit
- Advanced Manufacturing Production Credit
- Clean Electricity Investment Credit (ITC)

Deductions & Credits

- Meals
  - 100% Fishing Activities
  - 50% Otherwise

- Employee Retention Credit
  - Prevention of payment for certain claims

199A: Qualified Business Income Deduction

TCJA Expiration	Post-OBBBA
• Full expiration after 2025 • 20% of qualified business income exempt from taxation • Phaseout for SSTBs • Limits based on taxable income, wages paid and UBIA	• Permanent 20% • Higher $100k-150k MFJ Phase-Out for SSTBs • $400 minimum for taxpayers with $1k of QBI • Starting 1/1/26

Passthroughs

- 461(l) Excess business loss limitation
- Opportunity Zones
- Disguised sale treatment

INDIVIDUAL HIGHLIGHTS

Individual Income Tax – Tax Brackets

- Permanent extension of the lower TCJA income tax rate schedules for individuals. Adds an additional year of inflation adjustment for the 10% and 12% brackets. Effective for taxable years beginning after December 31, 2025

2025 Tax Rate	Single Filers (Income Over)	Married Filing Jointly (Income Over)
10%	$0	$0
12%	$11,925	$23,850
22%	$48,475	$96,950
24%	$103,350	$206,700
32%	$197,300	$394,600
35%	$250,525	$501,050
37%	$626,350	$751,600

Individual Income Tax – Standard Deduction

- The higher standard deduction established under the TCJA is here to stay and will be increased with inflation

Filing Status	Standard Deduction (2025)
Single	$15,000
Married Filing Jointly	$30,000
Head of Household	$22,500

Individual Income Tax – SALT deduction

Pre-TCJA SALT deduction	Post-TCJA SALT deduction
• No cap on SALT deductions — full amount deductible • Included state/local income or sales taxes **and** property taxes • Primarily benefited taxpayers in high-tax states (e.g., NY, CA, NJ) • Must itemize deductions to claim SALT • Significantly reduced taxable income for high earners	• Deduction capped at **$10,000** • Same types of taxes deductible, but subject to the cap • Limited benefit for high-income taxpayers in high-tax states • Still requires itemizing, but fewer taxpayers do so due to higher standard deduction • Cap reduces the overall impact on federal tax liability

Individual Income Tax – SALT deduction

- Under the OBBBA – SALT deduction cap raised to **$40,000** starting in 2025
- Phase-out begins at $500,000 MAGI (single/joint) and $250,000 (separate)
- Reduction formula: 30% of income above threshold – fully phased out at $600,000
- Deduction cannot fall below old limits ($10,000 / $5,000)
- Applies from 2025 through 2029; expires after 2029
- Benefits taxpayers in high-tax states and middle-income households

Individual Income Tax – SALT deduction

- The increased SALT cap reduces need for PTE tax workaround in many cases
- PTE tax elections are still beneficial for high-income taxpayers above phase-out thresholds
- Planning opportunities to coordinate PTE tax payments, timing of income recognition with new SALT deduction limits

Itemized Deductions - 2026

- Unreimbursed Educator Expenses
- Phaseouts
- Charitable deductions

Family Related Credits

- Child Tax Credit
- Trump Accounts
- 529 Plan

New Temporary Deductions (2025 – 2028)

- Tip Income Deduction:
  - Individuals may deduct up to $25,000 in qualified tip income ($25k cap regardless of filing status).
  - Must be occupations deemed by the IRS to be customarily receiving Tips.
- Overtime Pay Deduction:
  - Individuals with qualified pay may deduct the premium (half-time portion) up to $12,500 per Individual ($25,000 for MFJ).
- Phase-out for both deductions begins at MAGI over $150,000 (Single) or $300,000 Joint.

New Temporary Deductions (2025 – 2028)

- Car Loan Interest Deduction:
  - Above-the-line deduction for up to $10,000 of interest on qualified passenger vehicle loans originated from 2025 – 2028.
  - Vehicle must be new, assembled in the U.S., and for personal use (leases excluded).
  - Phase-out begins at MAGI over $100,000 (single) / $200,000 (Joint).
- Senior Deduction:
  - Individuals over age 65 may claim an additional deduction of $6,000 per individual ($12,000 if both qualify).
  - Phase-out begins at MAGI over $75,000 (single) / $150,000 (Joint).

Estate & Gift Tax Exemption

- $30M MFJ exemption
  - Set to sunset at end of 2025 and revert to $14M MFJ.
  - Permanently extended with OBBBA and continued to be indexed for inflation.
- $19k gift threshold.
  - Will continue to be indexed for inflation.

Q&A

Q&A / Additional Resources

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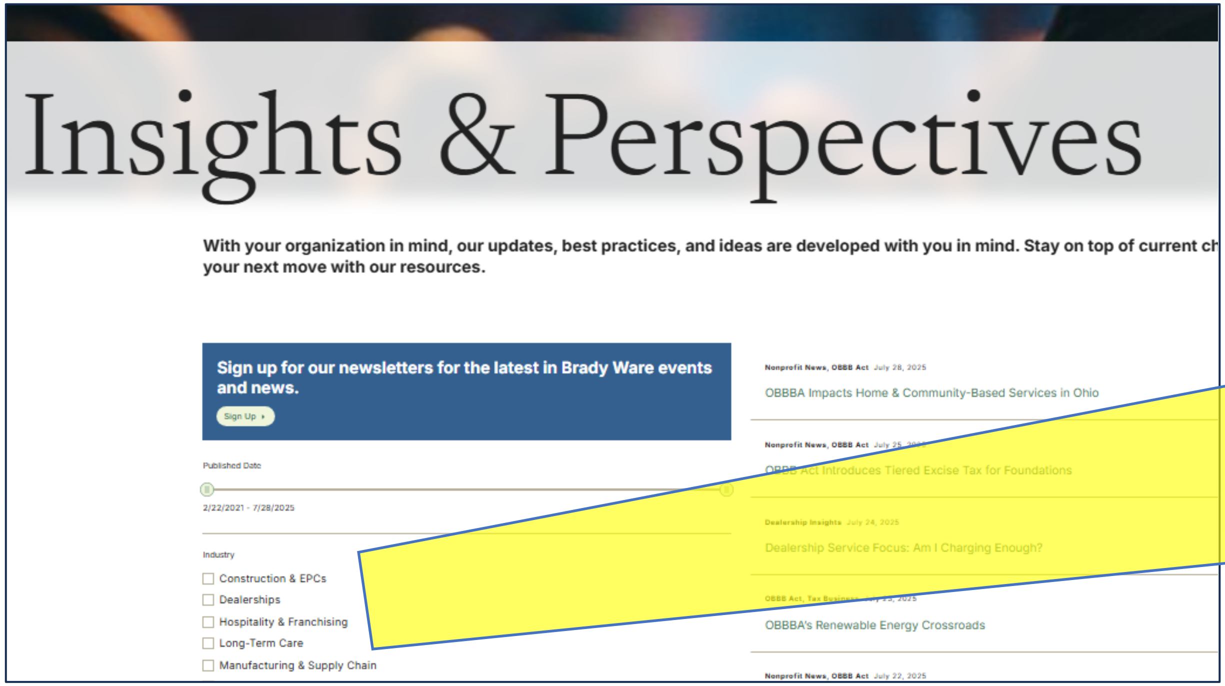

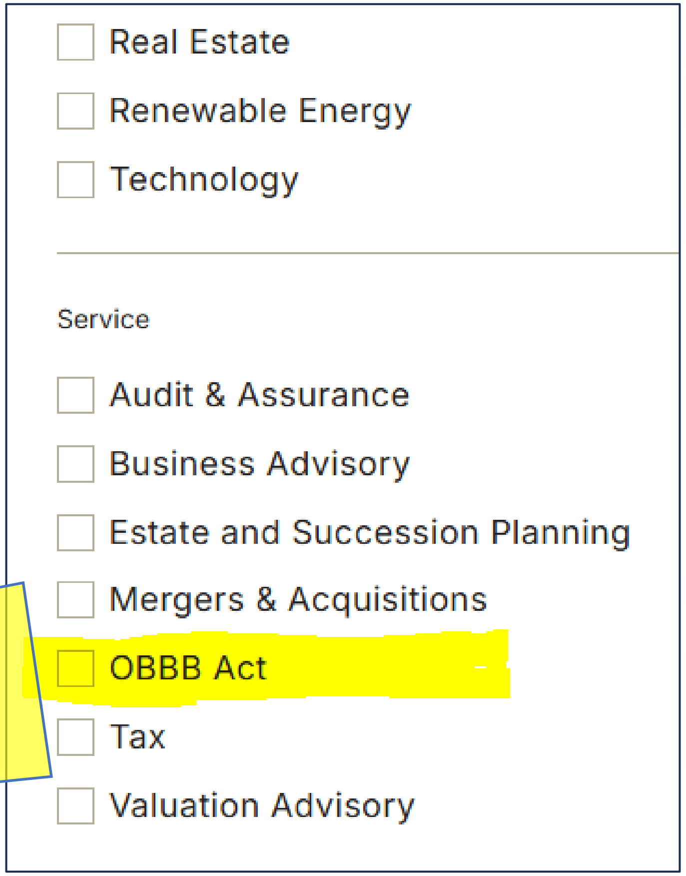

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