GBQuarterly Q4: Year End Business Tax Update

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Meet the Panel

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Today's Agenda

- Navigating The One Big Beautiful Bill Act (OBBBA) and identifying opportunities for your business
- Practical examples of tax planning strategies arising from OBBBA
- Status update of certain Federal tax credits
- Key international tax changes relevant to multinational businesses

Key Business Tax Changes

Changes to R&D Capitalization, Interest Expense, and Bonus Depreciation

R&D Capitalization Changes

OBBBA restores immediate expensing for domestic R&D costs, reversing amortization rules from TCJA. Foreign R&D still amortized over 15 years. Previously-capitalized costs may be 1) deducted in 2025; 2) deducted evenly between 2025 and 2026; 3) continue to be amortized as over five years.

Interest Expense Deductibility

EBITDA-based adjusted taxable income returns, increasing deductible interest and improving cash flow for capital-intensive firms under Section 163(j).

Bonus Depreciation Restoration

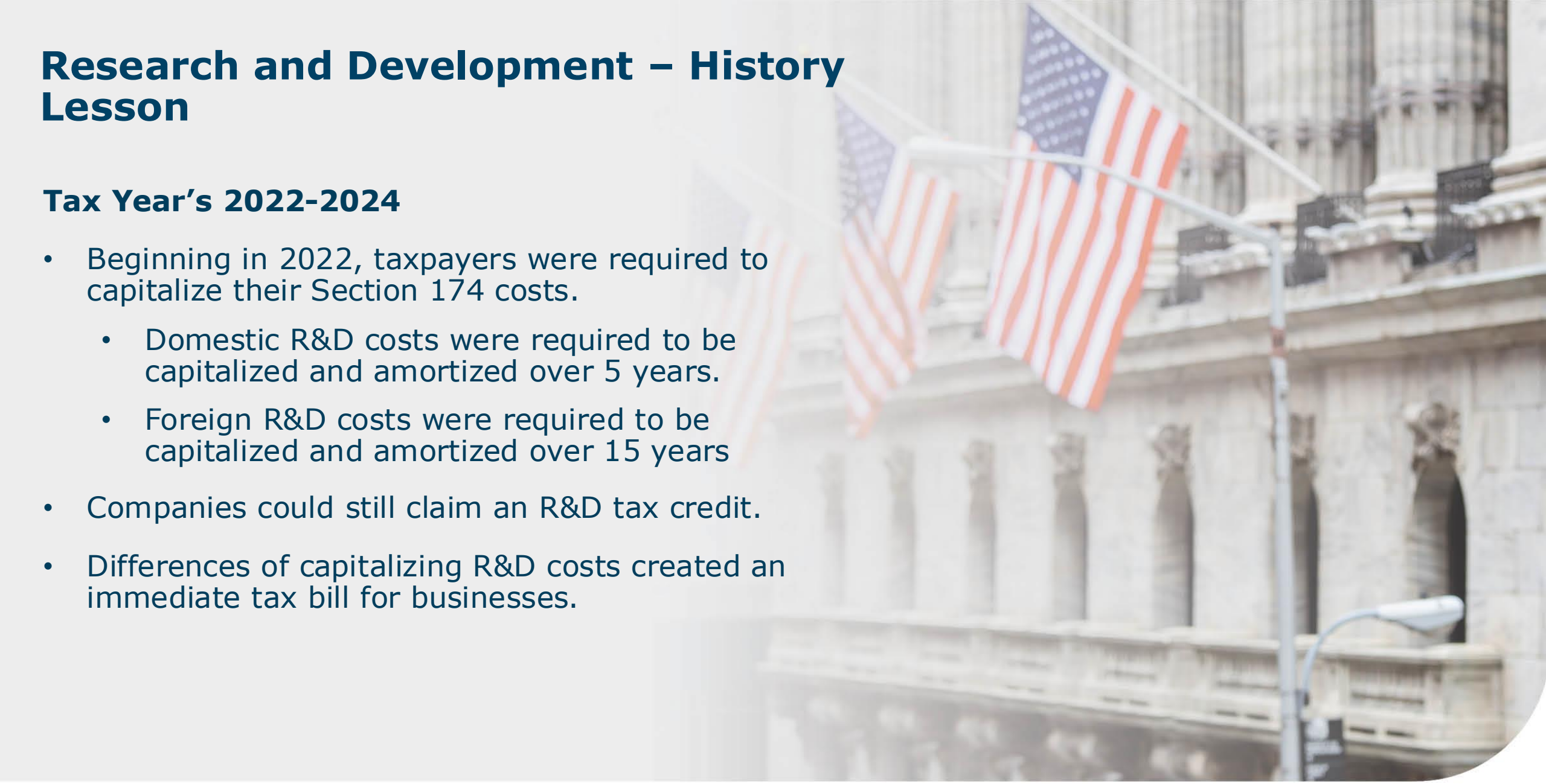
Bonus depreciation permanently restored to 100% for qualified tangible property placed in service after January 19, 2025, including used assets.

Research and Development – History Lesson

Tax Years Prior to 2022

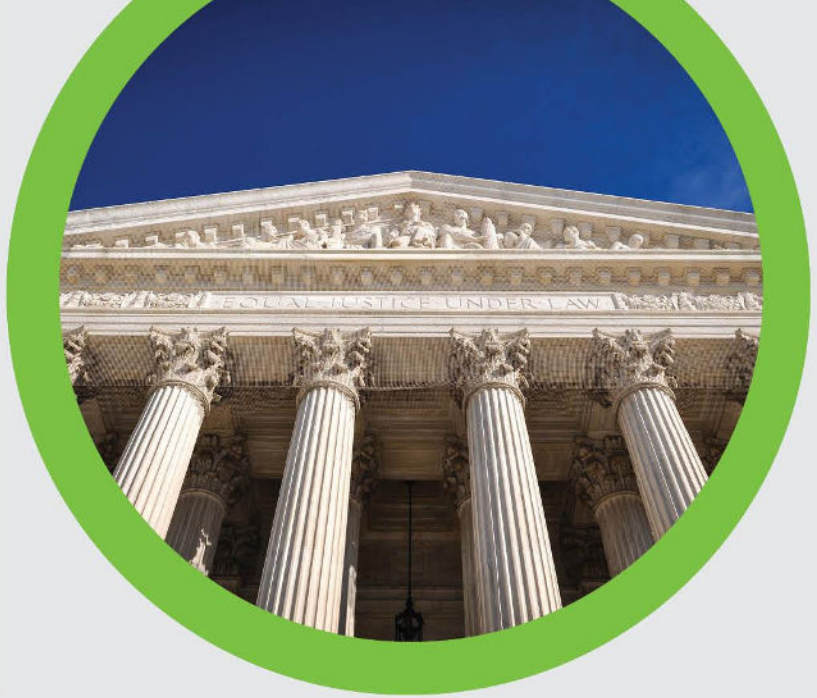
- Taxpayers could universally deduct their Section 174 (R&D expenses) in the year incurred.
- Taxpayers could identify which Section 174 costs qualify for an R&D tax credit.
- General result was that taxpayer would get a 5-10% rebate (in the form of a R&D tax credit) on their R&D expenses every year.

Research and Development – History Lesson



Tax Year's 2022-2024

- Beginning in 2022, taxpayers were required to capitalize their Section 174 costs.
  - Domestic R&D costs were required to be capitalized and amortized over 5 years.
  - Foreign R&D costs were required to be capitalized and amortized over 15 years
- Companies could still claim an R&D tax credit.
- Differences of capitalizing R&D costs created an immediate tax bill for businesses.



Research and Development – The Present

R&D Capitalization Changes

OBBBA restores immediate expensing for domestic R&D costs, reversing amortization rules from TCJA. Foreign R&D still amortized over 15 years. Previously-capitalized costs may be 1) deducted in 2025; 2) deducted evenly between 2025 and 2026; 3) continue to be amortized as over five years.

R&D Case Study: What Option is Best?

Consider ABC Company, a large C Corporation (21% tax rate) with $1,000,000 of annual domestic Section 174 costs. ABC Company has 2025 taxable income of $4,000,000 prior to considering Section 174 deductions.

Should ABC Company deduct all 2022-2024 unamortized costs in 2025 or spread between 2025 and 2026?

ABC Company				
	2022	**2023**	**2024**	**2025**
Section 174 Cost	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Section 174 Deduction	$100,000	$300,000	$500,000	$3,100,000
R&D Credit	$50,000	$50,000	$50,000	$50,000
Yearly Tax Cost/(Savings)	$139,000	$97,000	$55,000	**($491,000)**

Interest Expense Deductibility
EBITDA-based adjusted taxable income returns, increasing deductible interest and improving cash flow for capital-intensive firms under Section 163(j).

Bonus Depreciation Restoration
Bonus depreciation permanently restored to 100% for qualified tangible property placed in service after January 19, 2025, including used assets

	Pre-OBBBA	Post-OBBBA	25 PPE Additions	$3,000,000
Pre-Tax EBITDA	$6,000,000	$6,000,000		
Tax Depreciation	$(942,780)	$(3,000,000)	Capitalized 174 (25)	$0
Cap. Of 174			Capitalized 174 (Pre-25)	$0
Amort. Of 174			Interest Expense	$2,000,000
Tax Amort.	$(1,250,000)	$(1,250,000)		
Pre-163(j) Permitted Interest Expense	$(2,000,000)	$(2,000,000)		
Disallowed Interest	$857,834	$200,000		
Taxable Income (TI)	**$2,665,054**	**$(50,000)**		
Tax Liability	**$559,661**	**$0**		
Adjusted TI (tax-basis EBIT/DA)	$3,807,220	$6,000,000		
Applicable %	30%	30%		
Allowable Interest	**$1,142,166**	**$1,800,000**		

Case Study of all R&D Capitalization, 163(j) and Bonus Depreciation Interplay

	Pre-OBBBA	Post-OBBBA
Pre-Tax EBITDA	$10,000,000	$10,000,000
Tax Depreciation	$(1,728,430)	$(5,500,000)
Cap. Of 174	1,500,000	0
Amort. Of 174	$(850,000)	$(3,500,000
Tax Amort.	$(1,250,000)	$(1,250,000)
Pre-163(j) Permitted Interest Expense	$(5,000,000)	$(5,000,000)
Disallowed Interest	$2,698,529	$2,000,000
Taxable Income (TI)	**$5,370,099**	**$(3,250,000)**
Tax Liability	**$1,127,721**	**$0**
Adjusted TI (tax-basis EBIT/DA)	$7,671,570	$10,000,000
Applicable %	30%	30%
Allowable Interest	**$2,301,471**	**$3,000,000**

25 PPE Additions	$5,500,000
Capitalized 174 (25)	$1,500,000
Capitalized 174 (Pre-25)	$3,500,000
Interest Expense	$5,000,000

Status Update of Green Energy Tax Credits

For Businesses and Commercial Projects

Tax Credit / Deduction	Original Expiration	New Expiration Date / Phase-out Trigger
Commercial Clean Vehicle Credit	2032	30-Sep-25
Energy Efficient Commercial Buildings Deduction (Sec. 179D)	2032	Construction must begin by June 30, 2026
Clean Hydrogen Production Credit	2032	Construction must begin by December 31, 2027
Clean Electricity Production/Investment Credits (for wind/solar)	Open-ended (emissions-based trigger)	Construction beginning after July 4, 2026, must be placed in service by December 31, 2027

Cost Segregation – New Qualified Production Property Deduction

Qualified Production Property Definition

QPP allows immediate 100% expensing for qualifying production-related nonresidential property placed in service after January 19, 2025.

Eligibility and Exclusions

Properties must be integral to production; office and administrative spaces are excluded from eligibility under QPP.

Benefits of QPP Deduction

Full expensing improves cash flow and reduces tax liability, accelerating deductions compared to traditional 39-year depreciation.

Compliance and Planning

Successful application requires engineering-based cost segregation studies and consideration of tax interactions like interest limits.

Charitable Contributions – New Limitations

New AGI Floor for Itemizers

Starting 2026, individuals must exceed a 0.5% AGI floor for charitable deductions, reducing benefits for smaller donations.

Cap on High-Income Deductions

Marginal tax benefit for charitable deductions is capped at 35% for high-income taxpayers, down from 37%.

Above-the-Line Deduction for Non-Itemizers

Non-itemizers receive permanent above-the-line deductions capped at $1,000 for singles and $2,000 for joint filers.

Corporate Deduction Limits and Planning

Corporations face a 1% floor and 10% ceiling on deductions, with carryforward rules for excess contributions up to five years.

Charitable Contributions Example (Individual)

	Pre-OBBBA (Including 2025)	Post-OBBBA (2026 and Forward)
Adjusted Gross Income	$750,000	$750,000
Charitable Contributions	$5,000	$5,000
AGI Floor	N/A	0.5%
Nondeductible Charitable Contributions	$0	$3,750
Deductible Charitable Contributions	**$5,000**	**$1,250**

Charitable Contributions Example (Corporate)

	Pre-OBBBA (Including 2025)		Post-OBBBA (2026 and forward)	
	Year 1	Year 2	Year 1	Year 2
Taxable Income Pre-Charitable Contributions	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Charitable Contributions (incl. Carryforward)	$110,000	$10,000	$110,000	$20,000
Taxable Income Ceiling (10%)	$100,000	$100,000	$100,000	$100,000
Taxable Income Floor (1%)	N/A	N/A	$10,000	$10,000
Permitted Deduction	$100,000	$10,000	$90,000	$10,000
Charitable Contribution Carryforward (5 years)	$10,000	$0	$20,000	$0
Total Deduction over Two Years		**$110,000**		**$100,000**

International Tax Updates

FDII and GILTI Changes

FDDEI Deduction Changes (C Corporations Only)

FDII is renamed FDDEI with deduction reduced to 33.34%, raising the effective tax rate, but simplifying calculations and expanding to new taxpayers.

GILTI Renamed and Adjusted

- GILTI is now NCTI with deduction lowered to 40%, increasing the U.S. tax rate and eliminating QBAI exclusion.
- Foreign tax credit haircut decreases to 10%, allowing up to 90% credit to offset increased U.S. tax burden.

FDDEI Changes Example

- Assume that USCo generates foreign derived deductible income (FDDEI) of $100 (gross sales minus COGS).
- USCo has $100 of R&D and interest, collectively, as properly allocable, and $2,000 of QBAI.
- Assume for expense allocation purposes that the asset values used to produce DEI and FDDEI are in the same proportion as the gross DEI and FDDEI.
- Assume that the corporation has sufficient taxable income to benefit from the entire Section 250 deduction

FDII (Pre-OBBBA)		FDDEI (Post-OBBBA)	
Gross DEI	$300	Gross DEI	$300
Gross FDDEI	$100	Gross FDDEI	$100
Allocation % for Expenses	33%	Allocation % for Expenses	33%
R&E and Interest Allocable to FDDEI	($33)	R&E and Interest Allocable to FDDEI	$0
Net DEI (DEI less total R&E and Interest)	$200	Net DEI (DEI less total R&E and Interest)	$200
Net FDDEI (DEI less total R&E and Interest)	$67	Net FDDEI (DEI less total R&E and Interest)	$100
QBAI ($2,000 * 10%)	($200)	QBAI (0%)	$0
FDII (DEI – QBAI) * (FDDEI / DEI)	$0	FDDEI	$100
Deduction Percentage	37.5%	Deduction Percentage	33.35%
FDDEI Deduction (Section 250)	$0	FDDEI Deduction (Section 250)	($33)
Impact on Tax Liability	$0	Impact on Tax Liability	($7)
Tax Rate Benefit on FDDEI	0.00%	7.00%	

NCTI Changes Example

- CFC 1 generated 100x of net tested income, 250x of QBAI, and 12x of foreign taxes.
- CFC 2 generated 25x of net tested loss, 5x of QBAI, and no foreign taxes.
- Assume no Section 250 taxable income limitation, high-tax exception, specified interest expense, etc.

GILTI (Pre-OBBBA)		NCTI (Post-OBBBA)	
Net Tested Income (US Shareholder's share) ($100 tested income less $25 tested loss)	$75	Net Tested Income (US Shareholder's share) ($100 tested income less $25 tested loss)	$75
QBAI (10%)	($25)	QBAI (0%)	$0
GILTI (US shareholder's share)	$50	NCTI (US shareholder's share)	$75
CFC Tested Income	$100	CFC Tested Income	$100
Inclusion %	50%	Inclusion %	75%
Foreign Taxes	$12	Foreign Taxes	$12
Total Foreign Taxes Deemed Paid ($12 * 50% *80%)	$5	Total Foreign Taxes Deemed Paid ($12 * 75% *90%)	$7
Gross GILTI	$50	Gross NCTI	$75
Section 78 Gross Up ($20 * 50%)	$6	Section 78 Gross Up ($20 * 75%)	$9
GILTI Before 250 Deduction	$56	NCTI Before 250 Deduction	$84
Section 250 Deduction (50%)	($28)	Section 250 Deduction (40%)	($34)
Total Impact to Taxable Income	$28	Total Impact to Taxable Income	$50
Tax Before Foreign Tax Credit	$5.88	Tax Before Foreign Tax Credit	$10.58
Foreign Tax Credit (lesser of Deemed Paid or Tax Before Foreign Tax Credit)	($4.80)	Foreign Tax Credit (lesser of Deemed Paid or Tax Before Foreign Tax Credit)	($7.20)
Incremental Tax	$1.08	Incremental Tax $3.38	

Key IRS Forms for Cash Refunds

Key Forms and Links

Form 1045 - Tentative Refund

Form 1045 is used to apply for a tentative refund related to carryback adjustments

https://www.irs.gov/pub/irs-pdf/f1045.pdf

Form 4466 - Quick Refund

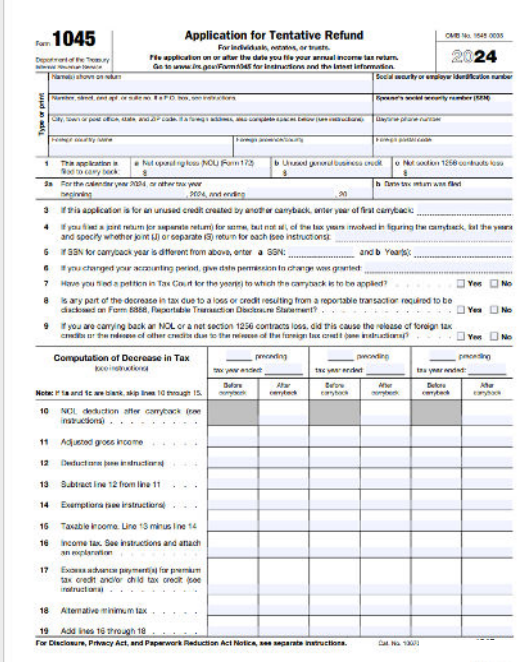
Form 4466 enables corporations to quickly claim refunds for overpayments of estimated tax.

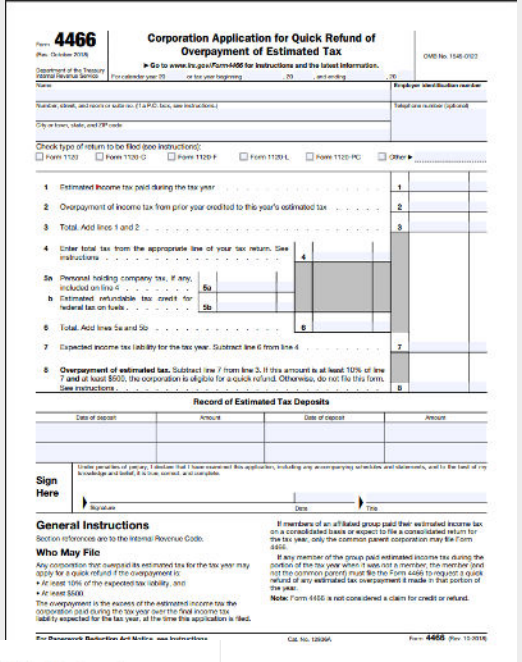
https://www.irs.gov/pub/irs-pdf/f4466.pdf

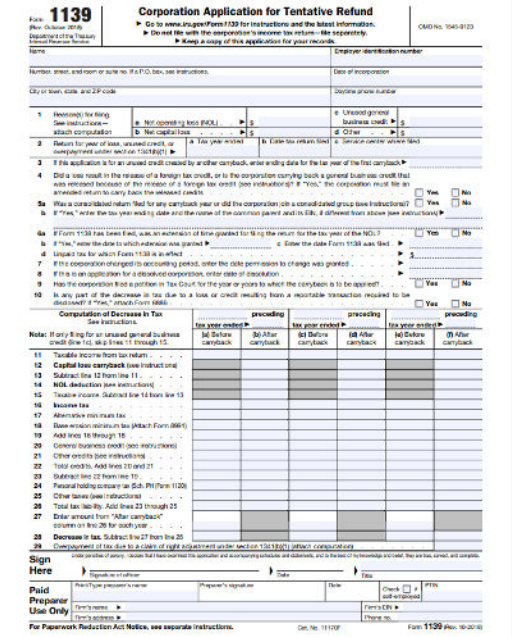
Form 1139 - Tentative Refund

Form 1139 is designated for corporations to apply for tentative refunds for net operating loss carrybacks.

https://www.irs.gov/pub/irs-pdf/f1139.pdf


Form 1045 Application for Tentative Refund


Form 4466 Corporation Application for Quick Refund of Overpayment of Estimated Tax


Form 1139 Corporation Application for Tentative Refund

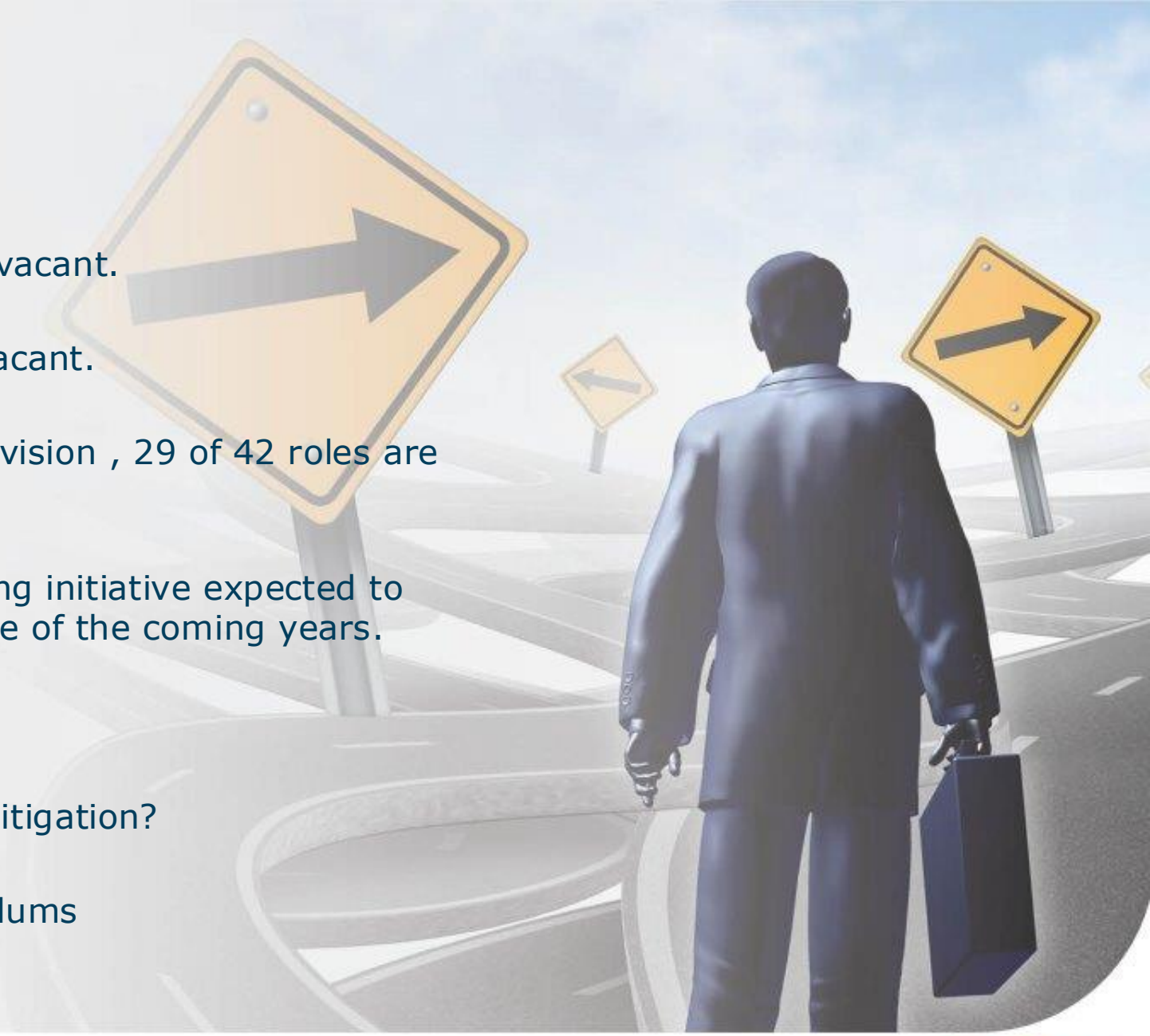
IRS Update

Major Structural Changes at the IRS

- 7 of 9 top officials' roles are either "acting" or vacant.
- 19 of 29 officials' roles are either "acting" or vacant.
- Within the Large Business and International Division , 29 of 42 roles are either "acting" or vacant.
- IRS and Justice Department reduction in staffing initiative expected to cut approximately 30% of positions over course of the coming years.

How will these changes impact:

- Risk assessment, examinations, Appeals, and litigation?
- Private letter rulings and tax advice memorandums
- Guidance projects (i.e. OBBBA guidance)



Thank You

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