

# Reviewing Tax Provisions of the One Big and/or Beautiful Bill

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# One Big Beautiful Bill Act (OB3)

- **Signed Into Law:** July 4, 2025
- **Purpose:** To permanently extend and enhance key tax provisions from the TCJA, stimulate domestic investment, and simplify compliance.



# OB3 Revenue Generators – Spending & Offsets

- **Health Care Savings**
  - Caps Medicaid growth
  - Restructures ACA subsidies
  - Tightens eligibility audits
- **Clean Energy Credit Reductions**
  - Phases out solar/wind production and investment credits
- **Spending Reallocations**
  - Reductions in agricultural subsidies
  - Caps on discretionary programs
  - Reallocation of border and immigration spending
- **Dynamic Revenue Feedback**
  - CBO projects \$332B in added revenue from increased labor and capital supply



# One Big Beautiful Bill – Business Provisions

## **1. R&D Expensing**

- Retroactively repeals TCJA requirement to amortize domestic R&E expenses.
- Immediate expensing restored for domestic R&E; foreign R&E still amortized over 15 years.

## **2. Bonus Depreciation**

- Permanently reinstates 100% bonus depreciation for qualifying property placed in service after Jan 19, 2025.
- Transitional election available to take 40% instead.

## **3. Cost Segregation & QIP**

- QIP remains eligible for bonus depreciation.
- Cost segregation strategies encouraged for accelerated deductions.

## **4. Qualified Production Property (QPP)**

- New category under IRC §168(n) for real property used in production activities.
- Includes reuse and retrofitting rules.



# One Big Beautiful Bill – Business Provisions

## **5. QSBS Enhancements**

- Gain exclusion cap raised to \$15M or 10× basis.
- Holding period tiered: 3 years (50%), 4 years (75%), 5 years (100%).
- Gross asset limit raised to \$75M.

## **6. Section 199A Deduction**

- Permanently extends the 20% passthrough deduction for Qualified Business Income (QBI).

## **7. Interest Deduction Limitation**

- Section 163(j) interest limitation made permanent.

## **8. FDII & GILTI Adjustments**

- FDII deduction expanded.
- GILTI deduction reduced.
- Base Erosion Minimum Tax increased.



# R&D Provisions in the OB3

## 1. Immediate Expensing of Domestic R&E

- The TCJA required capitalization and amortization of R&E expenses over 5 years starting in 2022.
- **OB3 Fix:** Retroactively repeals this requirement for **domestic** R&E expenses.
- **Effective Date:** Applies to tax years beginning after Dec 31, 2021.

## 2. Foreign R&E Still Capitalized

- **No Change:** Foreign research expenses must still be amortized over 15 years.
- **Planning Tip:** Consider restructuring R&D operations to maximize domestic expense treatment.

## 3. Section 174 vs. Section 41 Coordination

- **Section 174:** Governs treatment of R&E expenditures.
- **Section 41:** Provides the R&D tax credit.
- **OB3 Clarification:** Ensures that expenses deducted under Section 174 do **not reduce** the credit base under Section 41.

## 4. Software Development Costs

- **Pre-OBBBA:** Software development was treated as R&E and subject to amortization.
- **OBBBA Update:** Software development costs incurred domestically are now **fully deductible** under Section 174.



# R&D Provisions in the OB3

## 5. Strategic Considerations

- **Tax Planning:** Immediate expensing boosts current-year deductions, reducing taxable income.
- **Cash Flow:** Enhanced deductions improve after-tax cash flow, especially for startups and tech firms.
- **Documentation:** Maintain robust records to substantiate domestic R&E classification.

## 6. What to Do with Previously Capitalized R&D Expenses (2022–2024)

- **Option 1: File Amended Returns**
  - **Who qualifies:** All taxpayers, especially small businesses.
  - **What to do:** Amend 2022–2024 returns to deduct previously capitalized domestic R&E expenses.
- **Option 2: Accelerate Remaining Amortization (No Amendments)**
  - **Who qualifies:** Taxpayers with unamortized R&E balances from 2022–2024.
  - **What to do:** Elect to accelerate remaining amortization starting with the 2025 return.
    - Requires accounting method change

# Bonus Depreciation Reimagined: Federal Revival, Tennessee Reality, and Strategic Asset Planning





## Bonus Depreciation Reinstated

- OB3 Permanently reinstates 100% bonus depreciation.
- Applies to tangible property with a recovery period of 20 years or less
  - Includes machinery, equipment, vehicles, Qualified Improvement Property (QIP), and Qualified Production Property.
- Transitional election available to take 40% instead of 100%.



## Tennessee's Divergence

- Tennessee does not conform to OB3
- Follows the TCJA Phaseout Schedule
  - 40% bonus depreciation in 2025
  - 20% in 2026
  - 0% in 2027
- Excise Tax allows bonus depreciation only if taken federally — but capped by the phaseout.



# Tennessee's Divergence

- **Recent tax manual update:**

**⚠ REMINDER: Tennessee Bonus Depreciation Conformity**

Pursuant to Tennessee law (Public Chapter 377 (2023)), for assets purchased on or after January 1, 2023, Tennessee remains coupled with the federal bonus depreciation provisions under IRC § 168, as amended by the federal Tax Cuts and Jobs Act of 2017 ("TCJA"). If the federal bonus depreciation provisions are amended by subsequent enactment of federal legislation, Tennessee will nevertheless remain coupled with the TCJA bonus depreciation provisions unless conforming state legislation is enacted.

Therefore, the following bonus depreciation applicable percentages continue to apply for Tennessee excise tax purposes:

<b>Asset Acquired Between:</b>	<b>Bonus Percentage:</b>
1/1/2023 – 12/31/2023	80%
1/1/2024 – 12/31/2024	60%
1/1/2025 – 12/31/2025	40%
1/1/2026 – 12/31/2026	20%
1/1/2027 – and after	0%



# Qualified Improvement Property

- **What is it?**
  - Interior improvements to nonresidential buildings.
  - Must be made after the building was first placed in service.
  - Excludes elevators, escalators, and structural framework.
- **Why it matters:**
  - Prime candidate for cost segregation.
  - Often overlooked in leasehold improvements.
  - Can be retroactively reclassified.



# Qualified Production Property

- **What is it?**

- Nonresidential real property used in a Qualified Production Activity (QPA).
- Must be placed in service in the U.S.
- Original use must begin with the taxpayer.
- Construction must begin after Jan 19, 2025 and be placed in service before Jan 1, 2031.
- Taxpayer must make an election.

- **What is it not?**

- Offices, lodging, customer service, leased property, and related-party acquisitions.



# QPP Reuse & Retrofitting Rules

- **Existing property can qualify:**

- Property must not have been used in a QPA between Jan 1, 2021 and May 12, 2025.
- Taxpayer must not have used the property before acquisition.
- Must be acquired under a non-binding contract after Jan 19, 2025.
- Must be placed in service before Jan 1, 2031.
- Election required.

- **Additional Points:**

- Substantial renovations may qualify the improved portions.
- Cost segregation helps isolate qualifying components.
- Documentation is key — especially for audit defense.



# Cost Segregation Studies

- **What it does:**

- Breaks down a building into components with shorter lives — 5, 7, or 15 years.
- Reclassifies assets like carpet, lighting, millwork, and QIP.
- Makes those components eligible for bonus depreciation.

- **Benefits:**

- Accelerated deductions
- Cash flow boost
- Audit protection



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# Qualified Small Business Stock (QSBS)

- QSBS refers to stock issued by a domestic C corporation that meets specific requirements under IRC §1202. If held for a qualifying period, gains from the sale of QSBS may be excluded from federal income tax.
- Previous Rules (Pre-OB3):
  - Holding Period: Minimum 5 years
  - Exclusion Amount: Greater of \$10 million or 10× basis
  - Exclusion Rate: Typically, 100% for QSBS acquired after Sept 27, 2010
- New Rules (Post-OB3, for stock acquired after July 4, 2025):
  - Tiered Holding Periods:
    - 3 years → 50% exclusion
    - 4 years → 75% exclusion
    - 5 years → 100% exclusion
  - Exclusion Cap Raised: Greater of \$15 million or 10× basis
  - Inflation Adjustment: Starting in 2027, the \$15M cap will be indexed for inflation.



# Qualified Small Business Stock (QSBS)

- **Eligibility Criteria for QSBS:**
  - Issued by a U.S. C corporation.
  - Original issuance to the taxpayer (not purchased from another shareholder).
  - Aggregate gross assets of the issuing company must be \$75 million or less (raised from \$50M under OBBBA).
  - At least 80% of assets must be used in an active trade or business.
- Must not be in a disallowed industry (see below)



# Qualified Small Business Stock (QSBS)

- Disallowed Industries Under Section 1202
  - Certain businesses are excluded from QSBS treatment, including those where the principal asset is the skill or reputation of employees. These include:
    - Health services
    - Law
    - Engineering
    - Architecture
    - Accounting
    - Actuarial science
    - Consulting
    - Performing arts
    - Athletics
    - Financial services
    - Brokerage services
    - Banking, insurance, financing, leasing, investing
    - Farming
    - Hotels, motels, restaurants
- QSBS is generally available for industries like manufacturing, technology, software, and R&D.



# One Big Beautiful Bill – Individual Charitable / Tax Exempt Organizations

- **Charitable Contribution Deduction for Non-Itemizers**

- Permanently reinstates the non-itemizer partial charitable contribution deduction and increases it to a maximum of \$1,000 (\$2,000 for joint returns). Effective for tax years beginning after 12/31/2025.

- **Standard Deduction Further Increased**

- Single or Married Filing Separately: \$15,750
- Married Filing Jointly or Surviving Spouse: \$31,500
- Head of Household: \$23,625

- **New Itemized Deduction Limitation Calculation**

- Reduces itemized deductions by 2/37 of the lesser of: (i) itemized deduction amount; or (ii) amount of taxable income exceeding §1(j) threshold for 37% tax bracket. Revised limitation does not apply to §199A qualified business income deduction.



# One Big Beautiful Bill – Individual Charitable / Tax Exempt Organizations

- **Cash Contributions – Permanent 60% AGI Deduction Threshold**
  - Previously, under the Tax Cuts and Jobs Act of 2017 (TCJA), the 60% AGI limit for cash gifts was set to expire at the end of 2025 and revert to 50%. The OBBBA permanently extends the 60% cap.
- **0.5% Floor on Deduction for Charitable Contributions Itemizers**
  - Floor applies to all itemizing taxpayers, regardless of income level.
  - Limits itemized charitable contribution deduction by imposing a floor equal to 0.5% of the taxpayer's contribution base for the taxable year.
  - 5 year carryover of disallowance still subject to AGI Floor in future years.
  - Applies to taxable years beginning after Dec. 31, 2025.
- **Consider Giving Strategies**
  - Accelerate 2026 giving to 2025?
  - Bunching Itemized deductions
  - Donor Advised Fund to hold funds now to be given later



# One Big Beautiful Bill – Individual Charitable / Tax Exempt Organizations

- **Corporate Contributions also have new floor (1% of income)**
- **Tax Exempts may see changes in giving patterns**
- **Other OB3 changes for Tax Exempt Orgs limited**
  - Excise tax on Investment Income of Private Colleges.
  - Excessive Compensation excise tax expanded to all employees (and former employees).
  - Changes to individuals for payroll may also affect Tax Exempts.
- **Several Proposed provisions did not make the final law**
  - No Increase to Tax Rate on Private Foundations.
  - No resurrection of the “Parking Tax”.



# One Big Beautiful Bill – Individual Changes / Employer Payroll

- **Deduction for Tip Income**

- Creates an above-the-line federal income tax deduction for qualified tip income, reducing taxable income for eligible workers. Available to itemizers and non-itemizers alike.
- Applies to tax year 2025 and later and targets occupations that customarily and regularly receive tips.
- Excludes highly compensated employees by phasing out deduction for joint filers with AGI over \$300,000 & \$150,000 for others.

- **Qualified Tips Definition**

- Tips must be voluntary and fit the statutory and regulatory definitions; certain tipped payments and arrangements may be excluded. The customer must have the unrestricted right to choose the tip amount.
- You must report your tips to your employer, and they must appear on your Form W-2 (or Form 1099 for independent contractors). Unreported tips are not eligible for the deduction. If you do not report tips to your employer, you.





# One Big Beautiful Bill – Individual Charitable / Employer Payroll

- **Only certain workers are eligible**
- **General Categories from IRS – Treasury guidance identifies ~70 occupations that may qualify**
  - (1) Beverage & Food Service
  - (2) Entertainment\*\* & Events
  - (3) Hospitality & Guest Services
  - (4) Home Services
  - (5) Personal Services
  - (6) Personal Appearance & Wellness
  - (7) Recreation and Instruction
  - (8) Transportation & Delivery





# One Big Beautiful Bill – Individual Changes / Employer Payroll

- **New Deduction for Overtime Pay**

- Creates an above-the-line federal income tax deduction for qualified overtime pay (not including qualified tips). Does not remove overtime from being subject to payroll taxes.
- Applies to tax year 2025 through 2028.
- Phase out for highly compensated employees - deduction begins phasing out for joint filers with AGI over \$300,000 and \$150,000 for others .
- Limits deduction to \$12,500 of qualified overtime income (\$25,000 for joint returns). Available to itemizers and non-itemizers.

- **Qualified Overtime Pay**

- Nonexempt employees who receive FLSA overtime premium pay may qualify. FLSA standards control what overtime pay will qualify.
- Generally applies to the FLSA overtime premium portion (the time-and-a-half premium for hours worked over 40 in a workweek) rather than all wages.
- Taxpayers must substantiate overtime amounts with employer reporting (W-2, pay statements) or other documentation per IRS rules.



# One Big Beautiful Bill – Individual Changes / Employer Payroll

- **Dependent Care Assistance Program**
  - Increases the dependent care service exclusion to from \$5,000 to \$7,500 (\$3,750 for married filing separate) for expenses paid or incurred by an employer under a qualified program.
  - Applies to taxable years beginning after Dec. 31, 2025.
- **Employer Provided Childcare Credit**
  - Increases employer-provided childcare credit from 25% to 40% (50% for eligible small businesses) and yearly cap from \$150,000 to \$500,000 (\$600,000 for eligible small businesses), both indexed for inflation.
  - Applies to taxable years beginning after Dec. 31, 2025.
- **Student Loan Assistance**
  - Creates permanent \$5,250 exclusion for employer-provided student loan payments, indexed annually for inflation for taxable years beginning after 2026.



# One Big Beautiful Bill – Individual Changes / Employer Payroll

- **Safe Harbor for Absence of Deductible for Telehealth Services**
  - Permanently extends safe harbor, allowing high-deductible health plans to cover telehealth and other remote care services without a deductible and still qualify as HSA-compatible.
- **Affected Employers need to be ready for reporting changes**
  - Verify what 2025 law changes your employees may be affected by and look to resolve questions in gray areas.
  - Make sure information gathering systems track necessary information for W-2s.
  - Consider Employee education of new items to help ensure tax benefits received by employees.



# One Big Beautiful Bill – Individual Changes

- **Child & Dependent Care Credit**
  - Higher Credit rates available for lower AGI bands (top rate increases from 35% to 50% for lowest AGI bracket).
- **Adoption Credit**
  - Up to \$5,000 of the adoption credit becomes refundable starting in 2025; the maximum adoption credit for 2025 remains at \$17,280 with part refundable and indexing planned going forward.
- **Child Tax Credit**
  - Maximum CTC increased by \$200 to \$2,200 per qualifying child under 17 for 2025.
  - Enhanced per-child credit begins to phase out for higher incomes starting at \$200,000 for singles and \$400,000 for married filing jointly.



# One Big Beautiful Bill – Individual Changes

- **Sec 529 Plan Disbursements**

- Expanded definition of qualified expenses to include certain expenses in connection with enrollment in or attendance at elementary or secondary public, private, or religious school.

- **Mortgage Interest Deduction**

- Remains the same with cap on deductible home mortgage interest for acquisition indebtedness of \$750,000.

- **Auto Loan Interest Deduction**

- New Above the line deduction of up to \$10,000, subject to phase out for higher AGIs
- Vehicles must have final assembly in the United States to qualify, VIN # requirement, lender reporting for qualified interest.

- **Wagering Losses**

- New Deduction cap introduced limiting gambling losses to 90% of **reported** gambling winnings beginning with tax year 2026.
- Must continue to itemize to receive benefit of loss deduction, potential for phantom income if losses exceed winnings.



# One Big Beautiful Bill – Individual Changes

- **Enhanced Senior Deduction**

- Taxpayers age 65 and older can claim an additional \$6,000 deduction, \$12,000 for married filing joint.
- Intended to help with reduced taxability of social security income.
- Deduction is in addition to the standard deduction or itemized deduction claim on return.
- Deduction will also phase out based on income levels – beginning at 75,000 for singles, 150,000 for married filing joint.
- Seniors who qualify may want to take a second look at their retirement income and tax models inclusive of social security income, timing of IRA and 401(k) draws, Roth draws, etc.

- **Itemized Deduction for State and Local Taxes**

- The Tax Cuts & Jobs Act Limited the itemized deduction for state and local taxes to total of \$10,000
- OB3 increases this cap to \$40,000 for return filers in 2025 (\$20,000 for MFS) – Sunsets after 2029 and returns to \$10,000.
- Limited deduction remains for high-earners – Phaseout of increased cap begins at AGI of \$500,000 for single filers, \$1 million for married filing joint.
- Consider if partnerships and S Corps with nonresident owner state income tax payments whether PTET elections continue to make sense for owners.

- **Reduced AMT Exclusion amounts starting in 2026**

- More taxpayers may find themselves subject to Alternative Minimum tax than under the more generous TCJA exclusion amounts.





# One Big Beautiful Bill – Individual Changes

- **Trump Accounts**

- Federally Backed savings account established for eligible children under 18 years of age to encourage long term wealth building of next generation.
- Fund functions similar to an IRA, but without the earned income requirement for children. Penalty-free draws allowed for education, first-time home purchase.
- Withdrawals allowed after age 18 – can be converted to an IRA at age 18, or allows for draws Children born between January 1, 2025 and December 31, 2028 can receive an initial government deposit of \$1,000 when opening the account. Investments limited to broad-based diversified options.
- Annual contributions limited to \$5,000, to be indexed for inflation.
- Employers may choose to make contributions for employee children up to \$2,500 per year, excluded from gross income of employee (goes against \$5k contribution limit).
- Consider use in the broader spectrum of accounts and goals of saving – 529 plan, Roth if child has earned income, etc.



# One Big Beautiful Bill – Estate Tax Changes

- **Permanent Higher Estate Exemption**

- OB3 permanently increases estate and gift tax exemption to \$15 million per person in 2026, indexed annually for inflation. Removes some uncertainty around the cliff and reversion back to old amounts after 2025 – allowing more time to assess planning.
- Reassess current planning – consider whether there are older plans that no longer make sense for environment (AB Trusts, expedited gifts to lock in use of exemption).
- Remember nothing is really “permanent” with tax law – new presidential administration and new congress will seat at beginning of 2029.
- Continue to consider estate tax returns when not required, to lock in portability of unused estate exemption of deceased spouse.
- Basis step up planning may be critical for high-net worth taxpayers whose tax basis in assets to be gifted or passed as an inheritance.
- Don’t forget annual gifting strategies – kids and grandkids can help you take a big bite out of your net worth. 😊