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# Business Tax Planning 2025 and Beyond

October 2025

# MEET THE SPEAKERS

**Richard Weiner**
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Tax Partner

**Brian O'Hearn**
CPA, MSA
Tax Manager

**Kelly Zack**
MST
Partner, State
& Local Tax

# MEET THE SPEAKERS

**Christian Petruzzelli**
MSA, CPA
Tax Manager

**Destiny J. Flood**
CPA
Partner, Commercial Outsourced Accounting & Fractional CFO

# Poll Question 1

## How familiar are you with the July 4 tax legislation (OBBBA) changes?

# One Big Beautiful Bill Act (OBBBA)

# Key Provisions

**Brian O'Hearn**
CPA, MSA
Tax Manager

# One Big Beautiful Bill Act Overview

Formally known as H.R. 1, signed into law on July 4, the One Big Beautiful Bill Act makes many Tax Cuts and Jobs Act (2017) provisions permanent.

OBBBA introduces new deductions, expands existing ones, and eliminates certain tax credits.

OBBBA affects <u>both</u> individuals and businesses.

# New Individual Provisions

## Effective for Tax Years 2025 through 2028

### Qualified Tip Deduction

- Applies to tips received in "an occupation that customarily and regularly" received tips
- $25K deduction per individual

### Qualified Overtime Pay Deduction

- Applies to qualified overtime pay received in 2025 through 2028
- Qualified overtime pay is overtime required under the Fair Labor Standard Act of 1938
- $12,500 deduction per individual

# New Individual Provisions

## Car Loan Interest Deduction–Qualified Passenger Vehicles

- Tax years 2025 through 2028
- Above the line deduction; available to both itemizers and non-itemizers
- Capped at $10,000
- U.S. assembly of vehicle required
- Loan originated post 2024

## Charitable Contributions Deductions

- Now available to non-itemizers for cash charitable contributions made during the tax year
- Maximum deduction is $1,000 (single) or $2,000 (married filing jointly)
- Begins in 2026

## Senior Deduction

- $6,000 deduction available for seniors aged 65 and older
- Tax years 2025 through 2028

# Qualified Small Business Stock (QSBS)

# Section 1202

- QSBS gain exclusion rules are modified to provide for a tiered exclusion for QSBS acquired after July 4, 2025

- 3 Years – 50%
- 4 Years – 75%
- 5 Years – 100%

# Business Provisions: Depreciation

## Bonus Depreciation

- Rate increased for property placed in service after January 19, 2025
- Permanently increases deduction for qualified property to 100 percent
- 100 percent for qualified production property constructed after January 19, 2025 and before January 1, 2029. Must be placed in service before 2031.

## Sec 179 Expensing

- Immediate deduction of capital assets placed in service during the tax year
- Limitation is $2.5MM for 2025
- Investment limitation is $4MM for 2025

# Other Business Provisions

## 1099 Reporting

- 1099-MISC and 1099-NEC
  - Starting in 2026, threshold increases from $600 to $2,000
  - Will be adjusted for inflation after 2025
- 1099-K
  - Payments by third parties (Venmo, PayPal, credit card processors)
  - Original threshold reinstated
    - Gross payments of $20K or more AND 200 transactions

## Business Interest Expense

- Limitation on business interest expense deductions reinstated for 2025
- Limited to the sum of business interest income, floor plan financing interest, and 30 percent of adjusted taxable income
  - Adjusted taxable income corresponds to EBITDA

## QBI Deduction: Pass Thru Entity Owners

- Deduction for qualified business income is made permanent at 20 percent
- Phase outs begin at $75K (single) and $150K (married filing jointly)

# Research & Development Expenses

Deductibility of domestic expenses reinstated for tax years beginning in 2025 for all entities.

- Foreign expenses remain subject to capitalization and amortization over 15 years for tax.

Small businesses (gross receipts under $31MM) may retroactively apply the new limits to tax years after December 31, 2021.

- Amended returns will be required.
- Able to claim refund of tax previously paid.

Small businesses that do not retroactively apply may also deduct the unamortized costs in full on their 2025 return or split between 2025 and 2026.

# Paid Family and Medical Leave Credit

- Employer credit made permanent starting after 2025.
- Employers can claim credits for paid family and medical leave insurance premiums or wages to/for a qualified employee.
- Credit amount is added back to salary expense.
- Wages cannot be used to claim more than one credit.
- There are specific requirements. Let's discuss!

# Clean Energy Provisions Ending

**30 Sep. 2025**

- Commercial clean vehicle credit
- Previously owned clean vehicle credit
- Clean vehicle credit

**31 Dec. 2025**

- Energy-efficient home improvement credit
- Residential clean energy credit
- Sustainable aviation fuel credit

**30 June 2026**

- Energy efficient home credit
- Alternative Fuel Vehicle refueling credit
- Energy efficient commercial building deduction

# Takeaways

- New W-2 reporting requirements for tips and overtime: are you ready?
- Reinstated 100 percent bonus depreciation: can you take advantage?
- Are you realizing the benefit of QBI deductions for your pass-through entities?
- Have you had R&D expenses since 2022?
- Are you able to take advantage of the paid family medical leave credit?
- Do you have the ability to take advantage of clean energy credits before they expire?

# Poll Question 2

## Which best describes your understanding of nexus rules, apportionment formulas, and state-level tax enforcement?

# State & Local Tax (SALT) Update

**Kelly Zack**
MST
Partner, State & Local Tax

# 2025 SALT Trends & Risks

- Federal Conformity
- Interaction Between SALT Cap And PTE
- Sales tax expansion to services and digital products
- Increased audit activity
- Remote employees

# OBBBA Changes To SALT Cap

- Cap raised from $10K to $40K for most filers beginning 2025.
- Phased down based on income ($500K joint, $250K individual).
- Floor: SALT deduction cannot go below $10K.
- The cap and thresholds increase by one percent each year from 2026-2029.
- Starting in 2030, cap reverts back to $10K.
- PTE tax regimes remain available.

# Massachusetts – Welch Case

Massachusetts Appeals Court decision.

MA income tax on nonresidents, specifically taxation of capital gains from sale of stock.

Welch co-founded a MA-based company and worked exclusively in leadership roles in MA for 12 years; identified as a “key stakeholder”.

Moved to NH; two months later, company bought back his stock and he recognized a gain of $4M, which he excluded from his MA nonresident return.

# Massachusetts – Welch Case

## MA argued that this was MA-sourced income under MA Laws:

Items of gross income derived from or effectively connected with any trade or business, including any employment carried on by the taxpayer in the commonwealth whether or not the nonresident is actively engaged in a trade or business or employment in the Commonwealth in the year in which the income is received.

## TAKEAWAYS

- Residency requirements
- Potential for capital gain to be recharacterized as compensation
- Could influence how other high-tax states treat similar situations

# SALT Issues: SaaS

**Heavily Dependent on How States Define SaaS**

**Business Use (B2B) vs. Personal Use (B2C)**

**Sourcing of Sales**

- Where is the server located?
- Where are licenses being used?
- Multiple points of use exemptions

# Sales & Use Tax: SaaS Rules

CO & IL: SaaS is exempt at the state level, but local tax may apply.

LA: Taxable starting January 1, 2025.

CT & TX: SaaS considered data processing.

IA: Taxable for personal use exempt if used exclusively for a commercial enterprise.

MD: Noncommercial vs. commercial use; digital service tax.

# SALT Issues: Life Sciences

## Distinct SALT issues due to:

- Heavy R&D spend
- Facility/infrastructure needs
- Use of grants
- Partnerships with nonprofits

# SALT Issues: Life Sciences

- R&D credits
- Section 174
- Sourcing of income: patents, licenses, royalties
- Sales tax exemptions for manufacturing and R&D
- Property taxes
- NOLs

# Due Diligence

- Increasing emphasis on state taxes
- Asset vs. stock sale
- Successor liability
- **Sellers:** Need to be proactive in determining exposure and correcting SALT issues.
- **Buyers:** Do not want seller's mistakes to become your headache. Uncover potential exposure.

# Strategic Resolution and Planning

Nexus Study

Multistate SALT Analysis

State Credits & Incentives

Cost/Benefit Analysis

Due Diligence/Mergers & Acquisitions

Voluntary Disclosure Agreements

Amnesty Programs

# Poll Question 3

**How prepared is your organization for the OBBBA reforms affecting FDDEI, GILTI, and other cross-border provisions?**

# International Tax Updates & Planning

**Christian Petruzzelli**
MSA, CPA
Tax Manager

# Key International Updates Under OBBBA (Effective After December 31, 2025)

## Net CFC Tested Income (NCTI – f.k.a. GILTI)

- NCTI deduction decreasing to 40 percent from 50 percent in 2026.
- Tax rate increasing to 12.6 percent from 10.5 percent.
- However, the deemed paid tax credit has increased from 80 percent to 90 percent for CFC's foreign income taxes paid or accrued.

## Foreign-derived Deduction Eligible Income (FDDEI – f.k.a. FDII)

- FDDEI deduction decreasing to 33.34 percent from 37.5 percent in 2026.
- Tax rate increasing to 13.9986 percent from 13.125 percent.

# Controlled Foreign Corporations (CFC) Rules Update

**CFC look-through rule permanently extended.**

- CFCs can distribute their active earnings to related CFCs.

**Limit on downward attribution rules restored except for org. structures specifically targeted under new IRC Sec. 951B.**

- Targeted taxpayers are minority U.S. subsidiaries of foreign parents that hold stakes in foreign affiliates.

**Pro rata share rules have been modified.**

- Last day rule has been repealed.
- Subpart F and NCTI inclusions required for U.S. shareholders that owned stock on any day during the CFC year.

# Choice of U.S. Tax Treatment

**Foreign Branch/Disregarded Entities**

- Pass-through Taxation
- Subject to U.S. Tax
- Simplified Reporting
- Check-the-Box Election

**Foreign Subsidiary**

- Subject to CFC Rules, Including Anti-Deferral Taxation (e.g., NCTI and Subpart F inclusions)
- Complicated Compliance

# Payments Made to Foreign Persons

Fixed or Determinable, Annual or Periodic **(FDAP)** Income Paid to the Foreign Person

Form 1042 and Form(s) 1042-S Due Annually on March 15th

Most Types of U.S. Source Income Received by a Foreign Person Are Subject to a U.S. Tax of 30 Percent

A Reduced Rate, Including Exemption, May Apply if There Is a Tax Treaty Between the Foreign Person's Country of Residence and the United States


# Reportable Payment Examples

- Interest, Dividends, Royalties
- Bank Deposit Interest
- Board Members Who Are Not U.S. Person Who Attend Meetings in the U.S.
- Foreign Independent Contactors Who Perform Services in the U.S.
- Foreign Vendors For:
    - Consulting Services
    - Legal Services
    - Rents/Lease of Real Property
    - Software/License Payments
    - Royalty Payments
- Proper Documentation Required!

# Poll Question 4

**How confident are you in the timeliness and accuracy of your financial data to support year-end planning and tax compliance?**

# Alleviating Year-End Stress with Clean Books and Records

**Destiny J. Flood**
CPA
Partner, Commercial Outsourced Accounting & Fractional CFO

# Timely Record Keeping Matters

- Successful and timely tax planning and preparation depend on accurate books and records.
- Alleviate stress, stay organized.
  - Avoid giving tax team chaotic materials (e.g., the preverbal shoebox full of receipts).
  - Prevent the need for last-minute clean-up.
- Poorly organized records can lead to delays and extra work for your tax preparation team.

# Today's Business Challenges in the Finance Function


The finance function is changing quickly, with increasing **staff shortages and compliance requirements.**

Organizations are dealing with **expertise gaps** and **loss of knowledge** due to turnover or retirements.

These gaps affect areas from **routine accounting tasks** to **strategic financial leadership.**

# Review Current Accounting Infrastructure

- Evaluate your people, processes, and systems:
  - Skills gaps: Does your team possess the necessary expertise and resources?
  - Volatility: Are you experiencing turnover or challenges in hiring? This is an ideal opportunity to seek solutions.
  - Are you prepared? Establish a timeline and a detailed close checklist.
  - Confirm that the year-end close is finalized early; consult your tax CPA for important or technical matters.

# Continuous Close: Real-Time Accounting Insights

- Accounting activities performed continuously as opposed to waiting for the end of the accounting period.
- Continuous close automates the closing process throughout the period, reducing errors and expediting reports.
- Real-time data and insights enable faster decision-making and improve collaboration across accounting, tax, and finance teams.
    - Optimizing the accounting team and processes
        - Using **AI-powered cloud technology** to:
            - Enhance workflows
            - Improve reporting
            - Provide timely and accurate results
        - Emphasizing **efficiency and insights** to:
            - Simplify operations
            - Strengthen financial oversight
            - Support long-term objectives

# Know your tax team.
# Forge strong relationships.

1

**Engage Early and Often:**

Schedule proactive touchpoints with your tax team to foster seamless collaboration and ensure alignment on critical tax matters.

2

**Demand Clarity and Accountability:**

Request comprehensive tax documentation and explanations for complex issues. Drive transparency and informed decision-making.

3

**Accelerate Q4 Readiness:**

Ensure interim books and records are finalized ahead of year-end to enable agile tax planning and avoid costly delays.

# Important Record Keeping For Tax Planning and Compliance

- Maintain organized records of invoices and related documentation.
- Perform sales by state reconciliation and reporting.
- Typical clean-up areas:
    - related party transactions, timing of revenue and expenses, accruals, and inventory reconciliations
- Stay ahead of tax law changes that demand particular reporting, including R&D credits and capital expenditures for bonus depreciation.
- Evaluate your team's workload. Year-end is a good time to consider if outsourced assistance is necessary.

# Poll Question 5

## Where are you/your owners in your business exit planning journey?

# Questions

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| | | |
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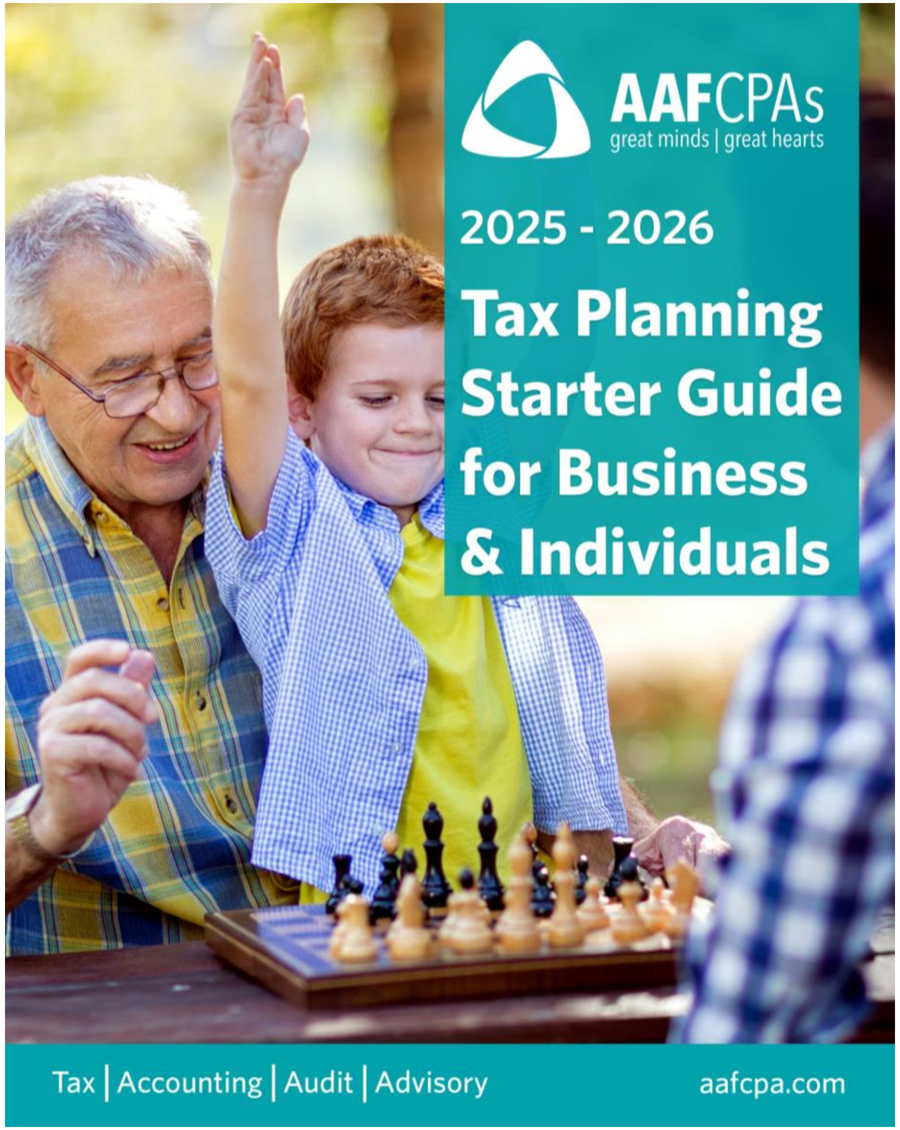
# Poll Question 6

Have you/your co-owners considered M&A in your business planning strategy?

# 2025 – 2026 Tax Planning Guide for Businesses & Individuals

We welcome the opportunity to help you map out a tax plan that takes full advantage of all strategies available to you.

2025-2026 Guide here.>>



# OBBBA Insights

https://www.aafcpa.com/tag/obbba/

# Webinars:
# Live & OnDemand

**22 October (Live)**

Business Tax Planning

**23 October (Live)**

Individual/Family Tax and Wealth Preservation

**28 October (Live)**

Cannabis Business Taxation

**17 November (Live)**

Understanding Your ITGCs

**20 November (Live)**

Explore Martus: Budget with Efficiency

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