

Qualified Business Income Deduction (QBID)

What changed:

- The QBID (Section 199A) deduction, which allows pass-through owners to deduct 20% of qualified business income, is made permanent with a higher “phase-in” range.
- A new minimum deduction amount of \$400 was added for any taxpayer with QBI.

What it means:

- The permanency provides stability in tax planning for pass-through business owners.
- Also, with QBID being made permanent, taxpayers should consider revisiting their entity structure to ensure it is the most tax efficient, particularly smaller entities taxed as a C Corporation.

Bonus Depreciation

What changed:

- 100% bonus depreciation (i.e. immediate expensing) was reinstated and made permanent for property acquired and placed in service after January 19, 2025.

What it means:

- Taxpayers should update 2025 tax projections and estimated payments that include this change (60% additional depreciation for 2025 assets, and 80% additional depreciation for 2026 assets).
- Reinstatement of 100% bonus depreciation allows more businesses to benefit from the increased upfront tax savings in years ahead and provides valuable flexibility for managing taxable income across years.
- The value of cost segregation studies for new construction and improvements has increased dramatically with this change.
- It is also important to remember that state conformity regarding bonus depreciation varies.

Bonus Depreciation Continued: Qualified Production Property (QPP)

What changed:

- New category of 100% bonus depreciation for production facilities (nonresidential real property).
- Applies to U.S. property started between 1/20/2025–12/31/2029 and in service by 1/1/2031.
- Must be original use, tied to qualified production activities (e.g., manufacturing, refining).
- Excludes office, R&D, sales, software, admin, lodging, and parking.
- 10-year recapture period applies (Section 1245).

What it means:

- Enables full expensing of eligible property used in production.
- Valuable for manufacturers and producers—cost segregation may be needed.
- Improves recovery for assets typically depreciated over 39 years.
- Leased buildings excluded—only owner-occupied properties qualify.

Section 179

What changed:

- Beginning in 2025, the limitation on expensing of certain depreciable assets is increased to \$2,500,000, with the property threshold increasing to \$4,000,000.
- The limitation on the SUV deduction limit is unchanged.

What it means:

- Taxpayers should update their 2025 tax projections and estimated payments that include this change.
- Taxpayers should consult their tax advisor to choose the best approach between Section 179 and 100% bonus depreciation, considering factors like loss limitations, state tax, and qualified assets.

Research and Development (R&D) Costs

What changed:

- Starting in 2025, domestic R&D costs (including software) are immediately deductible.
- Small businesses (avg. gross receipts < \$31M) can either amend returns for 2021-2024 or expense remaining unamortized costs in 2025/2026.
- Non-small businesses can only expense unamortized costs starting in 2025.
- Foreign R&D costs remain amortizable over 15 years.

What it means:

- Automatic accounting change with no Sec. 481(a) adjustment.
- Update 2025 tax projections and consult a tax advisor for optimal strategy.

Business Interest Expense (Sec. 163(j))

What changed:

- Starting in 2025, EBITDA (instead of EBIT) is used for business interest expense calculation.
- Capitalized interest now counts toward the limitation.

What it means:

- Potential relief for debt-financed investments in high-interest environments.
- Contact your tax advisor to model the impact.

Excess Business Losses (Sec. 461(l))

What changed:

- The limitation on excess business losses for non-corporate taxpayers is made permanent (previously expiring in 2028).

What it means:

- Excess losses are carried forward as net operating losses.

Form 1099 Compliance

What changed:

- Starting in 2026, the de-minimis reporting threshold for issuing 1099s increases from \$600 to \$2,000 (indexed for inflation).

What it means:

- Update year-end compliance processes for the new threshold when issuing 1099s.