



The One Big Beautiful Bill (OBBBB) and Other Must Know Tax Conventions

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Today's Agenda

- One Big Beautiful Bill (OB BB)
 - Qualified Business Income (QBI)
 - Manufacturing Production Property
 - SALT
 - Other provisions
- Section 754 Elections
- State Conformity
- Section 6166 Elections
- Q&A

Business/Corporate Tax Provisions



H.R. 1| Enacted July 4, 2025

One Big Beautiful Bill Act

Section 1202

- Qualified Small Business Stock (“QSBS”) / Section 1202
 - Two major thresholds have been increased:
 - The per-issuer gain exclusion cap is now \$15 million, up from \$10 million. This cap will be indexed to inflation starting in 2027.
 - The aggregate gross asset test for a company to qualify as a small business has been raised from \$50 million to \$75 million, also indexed to inflation.
 - **Eligible taxpayer:** The exclusion can be claimed by non-corporate taxpayers, including individuals, trusts, and estates. C corporations cannot claim the exclusion.
- SALT: The following states currently decoupling from federal IRC § 1202 Gain exclusion include AL, CA, HI (50%), NJ (pre-2026), PA, & WI (50%)**



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One Big Beautiful Bill Act

Section 1202

- Qualified Small Business Stock (“QSBS”) / Section 1202
- Key Requirements
 - The stock must be in a C corporation.
 - The corporation must be a qualified small business (assets not exceeding a certain threshold).
 - The stock must be originally issued to the taxpayer (not purchased on the secondary market).
 - The taxpayer must hold the stock for a minimum period before selling.
 - The stock must be in a qualified trade or business.



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Section 1202

- K-1 pass-through Disclosure:
 - Income reported on Line 110 – other income
 - Footnote disclosure to the partner including company name, date purchased and disposition.

UNDER SECTION 1202(G), GAIN FROM THE SALE OR EXCHANGE OF QUALIFIED SMALL BUSINESS STOCK HELD BY A PARTNERSHIP WOULD BE ELIGIBLE FOR THE EXCLUSION IF (A) SUCH AMOUNT IS ATTRIBUTABLE TO GAIN ON THE SALE OR EXCHANGE BY THE PARTNERSHIP OF STOCK WHICH IS QUALIFIED SMALL BUSINESS STOCK IN THE HANDS OF SUCH ENTITY AND WHICH WAS HELD BY SUCH ENTITY FOR MORE THAN 5 YEARS AND (B) SUCH AMOUNT IS INCLUDIBLE IN THE GROSS INCOME OF THE TAXPAYER BY REASON OF HOLDING AN INTEREST IN SUCH ENTITY WHICH WAS HELD BY THE TAXPAYER ON THE DATE WHICH SUCH PARTNERSHIP ACQUIRED SUCH STOCK AND AT ALL TIMES THEREAFTER BEFORE THE DISPOSITION OF SUCH STOCK BY SUCH PARTNERSHIP.

FOR PURPOSES OF APPLYING THE LIMITATION UNDER SECTION 1202(B) AS DISCUSSED ABOVE, SUCH AMOUNT MUST BE TREATED AS GAIN FROM A DISPOSITION OF STOCK IN THE CORPORATION ISSUING THE STOCK DISPOSED OF BY THE PARTNERSHIP AND THE TAXPAYER'S PROPORTIONATE SHARE OF THE ADJUSTED BASIS OF THE PARTNERSHIP IN SUCH STOCK MUST BE TAKEN INTO ACCOUNT. FURTHERMORE, UNDER SECTION 1202(G)(3), THE AMOUNT OF GAIN THAT IS ELIGIBLE FOR THE EXCLUSION IS LIMITED TO THE SMALLEST AMOUNT OF THE INTEREST THE TAXPAYER HELD IN SUCH PARTNERSHIP ON AND AFTER THE DATE THE QUALIFIED SMALL BUSINESS STOCK WAS ACQUIRED.

THE FOLLOWING INFORMATION, ALONG WITH IRS FORM 8949 AND SCHEDULE D INSTRUCTIONS, WOULD BE HELPFUL IN DETERMINING IF ANY OF THE ALLOCABLE GAIN IS ELIGIBLE FOR THE PARTIAL EXCLUSION UNDER SECTION 1202. FOR ADDITIONAL INFORMATION, PLEASE CONSULT WITH THE PARTNERSHIP AND THE APPROPRIATE SECTION 1202 CONTACTS REGARDING THE POSSIBLE APPLICATION OF SECTION 1202.





QSBS – Section 1202

Example:

A person, Alex, acquires QSBS in a startup in 2026. The company grows rapidly, and this person sells the stock in 2031 for a \$30 million gain.

Under the new rules:

- If the stock is held for five years or more, the entire \$30 million gain could be excluded (subject to the \$15 million per-issuer cap).
- If sold after four years, 75% of the gain would be excluded.
- If sold after three years, 50% of the gain would be excluded.

This tiered structure allows for more consideration and benefit for timing of exit.

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Bonus Depreciation

- Bonus Depreciation / Section 179
 - Bonus: Written Binding Contract for Self-Constructed Property
 - Bonus: When does construction “begin”?
 - Section 179:
 - Maximum expense increased to \$2.5 million and reduced when qualifying property exceeds \$4 million
 - Amount is inflation adjusted annually
 - Beginning after December 31, 2024.

SALT: The following states currently conforming to IRC §168(k) include AL, CO, DE, IA, KS, MO, MT, ND, NE, NM, OR, WV

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One Big Beautiful Bill Act

Qualified Production Property

Law Change: Allows for 100% bonus depreciation on the adjusted basis of qualified production property. Qualified production property is non-residential real property which is:

1. Used by the taxpayer as an integral part of a qualified production activity;
2. Is located in the U.S.;
3. Original use begins with the taxpayer, and
4. The construction of the property begins after Jan. 19, 2025, and before Jan. 1, 2029.
5. Placed in service before January 1, 2031

We do expect that additional guidance will be issued by the IRS clarifying or expanding on some of the definitions and qualifying criteria above.

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Section 163(j)

1. Restores the computation of ATI to exclude depreciation, amortization, and depletion for taxable years beginning after Dec. 31, 2024. In addition, the new legislation would exclude subpart F, GILTI inclusions, and Section 78 gross-ups from ATI for taxable years beginning after Dec. 31, 2025.
2. Provides a new ordering rule.
3. Effective Date

SALT: The following states currently decoupling from the IRC §163(j) limitations include CA, CT, GA, IA, IN, MO, MS, SC, TN, TX, VA (partial – 50%), WI

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Section 174 and Revenue Procedure 2025-28

- Law Change reverts to pre-2022 rules for domestic only costs. Foreign costs are still required to be capitalized
 - Effective for tax years starting January 1, 2025.
 - Businesses that capitalized domestic R&E under old Section 174 to immediately deduct the unamortized expenses accrued from 2022 through 2024 via an accounting method change in the first taxable year beginning after Dec. 31, 2024
- Transitional guidance was released on August 29 (Revenue Procedure 2025-28) with options for both small business taxpayers (average annual gross receipts <\$31 million) and large business taxpayer
 - Small businesses the option to retroactively deduct these expenses on amended returns until July 4, 2026.
 - Small companies are granted the same window to make or revoke a reduced R&D credit election under Section 280C(c)(2) for the same period

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Section 460, Meals & Entertainment & More

Law Changes:

1. **Section 460:** Expands the types of contracts that are eligible to be exempt from the percentage of completion method to cover all “residential construction contracts” as opposed to just “home construction contracts.” Effective for contracts entered into in taxable years beginning after 7-4-25.
2. **Charitable Contributions made by corporations:** States that effective for tax years beginning after Dec. 31, 2025, corporate charitable deductions will be limited when total contributions exceed 1% but do not exceed 10% of the corporation’s taxable income. Contributions that exceed this threshold may be subject to disallowance, although certain carryforward provisions will apply to those disallowed amounts.
3. **Low-Income Housing Tax Credit:** Permanently increased the state housing credit ceiling by 12% starting in 2026. Additionally, the tax-exempt bond financing requirements will be reduced from 50% to 25% for projects financed by bonds starting in 2026.

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Section 460, Meals & Entertainment & More

Law Changes

1. **Meals and Entertainment:** No change was added to the OBBB for post-2025 elimination of the business expense deduction for employer provided meals (including company cafeteria or executive dining rooms) that are excludable from an employee's income under Code Section 119(a) and for food and beverages that qualify as de minimis fringe benefit to the employee under Code Section 132(e).
2. These expenses become fully non-deductible in 2026 with two exceptions in Section 274 (e)(8) and Section 274 (n)(2)(c).



Individual Tax Provisions



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One Big Beautiful Bill Act

SALT Cap and Gift/Estate Tax Exemption Changes

State and Local Tax Cap (“SALT” Cap) increased

- The state and local tax (SALT) deduction cap was raised from \$10,000 to \$40,000 in 2025 and \$40,400 in 2026 for individuals with a modified adjusted gross income of \$500,000 or less, beginning in 2025 through 2033 with increases to the deduction and AGI threshold annually.

Gift / Estate Tax Exemption made permanent

- The lifetime unified gift/estate tax exemption under the new legislation will be increased to \$15 million, linked to inflation for future increases.



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Key Federal Individual Income Tax Provisions (Tax Years Beginning in 2026)

- IRC §164(b) – State and local tax (SALT) deduction cap increases for five years for select individual taxpayers
 - SALT Cap increased from \$10K to \$40K for households with less than \$500K AGI
 - Phase out of deduction by 30% of any excess modified AGI but no lower than \$10K floor (i.e. AGI of \$600K or higher)
- Permanent extensions of lower individual tax rates, increased standard deduction
 - Annual inflation indexing for higher brackets will continue
- Termination of miscellaneous itemized deduction & personal exemptions
 - \$6,000 deduction for seniors for 2025 – 2028 tax years (phase out for taxpayers with AGI at \$75K (single) / \$150K (joint))
- 0.5% AGI floor on deduction of charitable contributions
- Estate and gift exemption exclusion amount increased to \$15M beginning in 2025
 - Annual inflation indexing of exclusion amount will continue

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Key Federal Income Tax Provisions

- IRC §199A – Extension & Enhancement of Qualified Business Income (QBI) Deduction
 - The QBI deduction for federal individual income tax purposes for up to 20% of the “qualified business income” (QBI) of certain businesses formed as pass-through entities was made permanent vs. expire for tax years beginning after 1/1/2025. Taxable income phase out limit increased from \$100K to \$150K with indexing for inflation for tax years beginning after 2026.
 - **Only the states of CO, ID, & ND currently conform to the IRC § 199A deduction.**
- State Pass Through Entity Tax (PTET) Regimes Allowed under Treasury Notice 2020-75 Survived

One Big Beautiful Bill Act – PTET States



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Charitable Contributions

Charitable Contributions

- For individuals who do not elect to itemize, the amounts are increased from \$300 (\$600 jointly) to \$1,000 (\$2,000 jointly).
- A new deduction floor is created at 0.5% of the individual's base (i.e., AGI) for the taxable year for taxpayers that itemize.
- Finally, there are specific requirements on how to apply the new deduction floor in Section 170. These changes shall apply to taxable years beginning after Dec. 31, 2025.

Section 754 Elections



Section 754 Elections

- **What is Section 754?**
 - A voluntary election made by a partnership to adjust the inside basis of partnership property generally triggered by transfer of a partnership interest. (sale, exchange, death)
- **Why make the election?**
 - Aligns inside basis (partnership reported basis in assets) with outside basis (partner's basis in their interest)
 - Allows for potential additional deductions including depreciation and amortization on any upward adjustment
 - Tracking mechanism in the tax planning and timing of unrealized gains and losses.

Section 754 Elections

- How is this presented on Schedule K-1?
 - Partner Tax Basis is calculated from each individual partner's initial investment
 - Partners Capital accounts statements are not necessarily tax basis if reported on GAAP or other method
 - Before 2020 Schedule K-1's were allowed to be reported on GAAP or other method of accounting
 - Box 20, code U presentation in year of adjustment and future years
- Section 743(b) – Transfers:
 - Adjusts basis for transferee partner only
 - Reflects difference between outside basis and inside basis
- Section 734(b) – Distributions:
 - Adjusts basis of remaining partnership assets
 - Affects all partners

Section 754 Elections

Tax K-1 Presentation

- Example Box 20, U and Box 13, ZZ:

SCHEDULE K-1		OTHER INFORMATION, BOX 20, CODE U SECTION 743(B) BASIS ADJUSTMENT	
DESCRIPTION	SECTION 743(B) ORIGINAL BASIS	SECTION 743(B) ACCUMULATED DEPRECIATION/ AMORTIZATION	SECTION 743(B) REMAINING BASIS
OTHER DEPRECIABLE ASSETS	127,476,227.	63,884,193.	63,592,034.

SCHEDULE K-1		OTHER DEDUCTIONS, BOX 13, CODE ZZ	
DESCRIPTION	PARTNER FILING INSTRUCTIONS	AMOUNT	
754 BASIS DEDUCTION		3,598,002.	
DEBT FINANCED DISTRIBUTION		1,793,660.	
TOTAL TO SCHEDULE K-1, BOX 13, CODE ZZ		5,391,662.	

State Conformity



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Federal Conformity

Pennsylvania

- Rolling (personal income tax) / Selective (corporate)

Maryland

- Maryland statute prevents any amendment to the IRC that will impact the state's income tax revenue by \$5M+ from being automatically adopted. As such, any provision(s) of the Act that hit this threshold are not automatically adopted in MD and require the Maryland Legislature's express enactment.

Texas

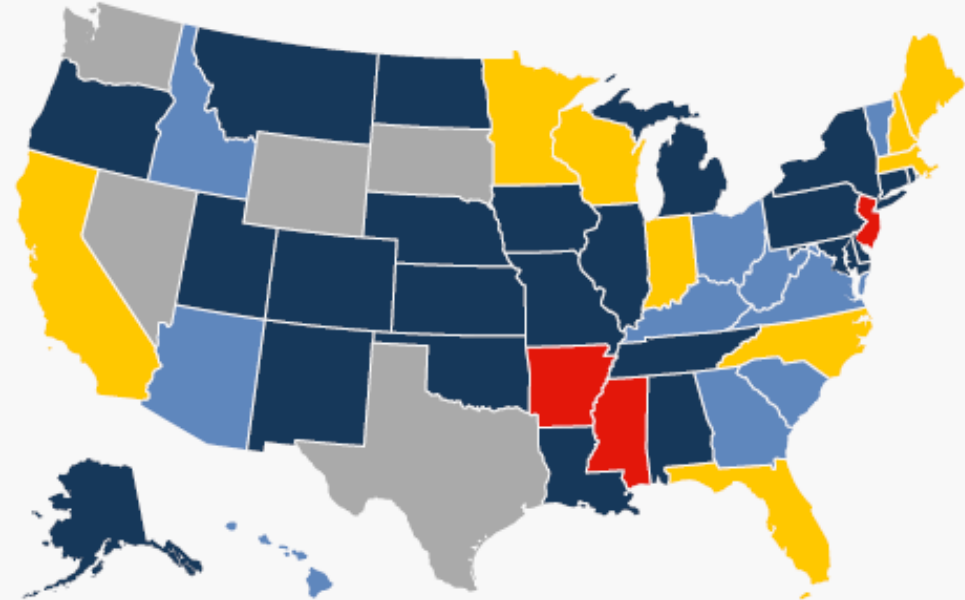
- Texas adopts the IRC as in effect on 1/1/2007 for franchise tax purposes.

Virginia

- If the OBBBA income tax amendments collectively impact Virginia's general fund revenues in an amount greater than ~\$15.9M for the current or subsequent four fiscal years, none of the Act's income tax amendments will apply unless separately adopted under Virginia law.

State Conformity to the Internal Revenue Code

Individual and Corporate Income Tax Conformity Status



■ Rolling ■ Static - Current ■ Static - Lagged ■ Selective ■ No
Income Tax

Note: Static conformity is considered "current" if presently aligned to 12/31/2024 or 1/1/2025. For states with CITs but not PITs, CIT conformity is indicated. Massachusetts has rolling conformity for its corporate income tax but lagged static conformity for its individual income tax. Mississippi and New Jersey have selective conformity but incorporate many corporate tax provisions on a rolling basis.
Source: State statutes; Tax Foundation research.

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Federal Program Funding Cuts

Healthcare Programs

- Medicaid (projected \$790B to \$1.02T)
- Medicare (projected \$500B triggered by deficit increases)
- ACA Marketplace
- SNAP (Food Assistance) (projected \$120B to \$295B)
- Rural Hospitals
- Economic & Social Impacts
 - Estimated 1.2M jobs lost by 2028 due to Medicaid and SNAP cuts
 - Projected increase of 16M uninsured Americans by 2034
 - Disproportionate impact on states with high poverty and Medicaid expansion

Sources: The Center for American Progress and the Advisory Board



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State Headlines

Colorado state budget faces \$1B shortfall in wake of Republicans' federal policy bill

Colorado Newsline (7/30/2025)

Nebraska Faces \$103M Revenue Loss From OBBBA Conformity

State Tax Analysts (9/5/2025)

Trump bill will cost Oregon \$880M in tax collections, state economists say

Portland Business Journal (8/27/2025)

Maryland Projects \$206M Revenue Drop From Federal Bill

Law360 (9/9/2025)

Massachusetts May Lose Billions From OBBBA Healthcare Changes

State Tax Notes (9/12/2025)

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Colorado – Tax Law Changes Enacted 8/28/2025

- Addback of IRC §199A qualified business income deduction which was originally to expire in tax years after 2025 has been permanently extended for single filers with AGI > \$500K (AGI > \$1M for joint filers) *H.B. 1001*
- Elimination of state sales tax vendor fees retained by small retailers to cover expenses in collecting and remitting sales taxes *H.B. 1005*
- Corporations no longer allowed a deduction for IRC §250 foreign-derived deduction eligible income.
- Hong Kong, Ireland, Liechtenstein, Netherlands, and Singapore were added to a list of countries perceived to be tax-havens.
- Department of Revenue granted broad discretion to determine if an affiliated group member is incorporated in a foreign jurisdiction for reasons of economic substance. *H.B. 1002*
- After 2025, the Colorado insurance premiums tax rate for insurance companies qualifying as having a regional in-state home office will be increased from 1% to 2% beginning in 2026. *H.B. 1003*

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Colorado – Initiative Nos. 145, 146, 147

- Colorado currently has a flat individual and corporate income tax rate of 4.4%
- The Legislative Staff Council submitted initiatives that would set up a fall 2025 voter referendum establishing five graduated income tax rates beginning on or after January 1, 2027 as follows:
 - 4.2% on income below \$100K;
 - 4.4% on income over \$100K but under \$500K;
 - 7.5% on income over \$500K but under \$750K;
 - 8.5% on income over \$750K but under \$1M; and
 - 9.5% on income over \$1M.
- Additional revenues generated would be distributed to public schools, childcare programs and replace lost OBBBA Medicaid funding.

H.R. 1| Enacted July 4, 2025

What's Next?

- Will states decoupled from IRC §174 need to also decouple from IRC §174A to avoid double benefit?
- Will states decoupled from IRC §168(k) bonus depreciation also likely to decouple from the new IRC §168(n) 100% deduction on qualified production property?
- Will states conforming to other favorable OBBBA and other IRC provisions decouple to raise tax revenue?
- What states will impose tax increases not directly tied to OBBBA federal provision changes and in what form?

Proposed Voter Referendum – Capital Gains Taxes

- The Texas legislature proposed a state constitutional amendment that would prohibit the imposition of a tax on the realized or unrealized capital gains of an individual, family, estate or trust.
- This referendum will be presented to voters on November 4, 2025.
- This proposal is in response to Washington state's enactment of a capital gains tax on individuals and non-corporate owners of pass-through entities.

Subchapter S vs. Subchapter C Tax Analysis





S corp v. C corp

Taxation differences

- S corporation for eligible shareholders pass-through of business income and expenses
- C corporation separate taxable entity and subject to double taxation (21% federal income tax rate plus state jurisdictions on profits, and shareholder pays tax on dividends)

Flexibility in Profit Distributions

- S corporations distributes profits strictly on ownership percentage and typically make tax distributions to shareholders annually
- C corporations may have more than 1 class of stock, preferred dividends, or other equity structure and maintains more control on timing of distributions to shareholders.

Ownership Restrictions

- S corporation limited to 100 shareholders of eligible shareholders (no partnerships or corporations) and certain Trusts (Confirm Qualified Subchapter S Trust (QSST) or Electing Small Business Trust (ESBT))
- C corporations do not have restrictions on owners.

Section 6166 Election



Section 6166 Elections

Purpose of Section 6166

- Allows deferral of federal estate tax payments on interests in closely held businesses
- Prevents the forced sale of family businesses to pay estate taxes

Eligibility Requirements:

- Descendent must be a US citizen or resident
- Business interest must exceed 35% of the adjusted gross estate
- Business must be active, not passive (e.g. not holding investments)

Election Process and Payment Structure

- File form 706 with a Notice of election w/in 9 months of death
- Consider filing protective election if eligibility is uncertain
- Up to 14 years and 9-month deferral
- First 5 years: interest only payments



Questions?