



Significant business tax provisions in the One, Big, Beautiful Bill Act

The One, Big, Beautiful Bill Act (OBABA) was signed into law on July 4. The new law includes a number of favorable changes that will affect small business taxpayers, and some unfavorable changes too. Here's a quick summary of some of the most important provisions.

First-year bonus depreciation

The OBABA permanently restores the 100% first-year depreciation deduction for eligible assets acquired after January 19, 2025. This is up from the 40% bonus depreciation rate for most eligible assets before the OBABA.

First-year depreciation for qualified production property

The law allows additional 100% first-year depreciation for the tax basis of qualified production property, which generally means nonresidential real property used in manufacturing. This favorable deal applies to qualified production property when the construction begins after January 19, 2025, and before 2029. The property must be placed in service in the United States or one of its possessions.

Section 179 expensing

For eligible assets placed in service in taxable years beginning in 2025, the OBABA increases the maximum amount that can be immediately written off to \$2.5 million (up

from \$1.25 million before the new law). A phase-out rule reduces the maximum deduction if, during the year, the taxpayer places in service eligible assets in excess of \$4 million (up from \$3.13 million). These amounts will be adjusted annually for inflation starting in 2026.

R&E expenditures

The OBBBA allows taxpayers to immediately deduct eligible domestic research and experimental expenditures that are paid or incurred beginning in 2025 (reduced by any credit claimed for those expenses for increasing research activities). Before the law was enacted, those expenditures had to be amortized over five years. Small business taxpayers can generally apply the new immediate deduction rule retroactively to tax years beginning after 2021. Taxpayers that made R&E expenditures from 2022–2024 can elect to write off the remaining unamortized amount of those expenditures over a one- or two-year period starting with the first taxable year, beginning in 2025.

Business interest expense

For tax years after 2024, the OBBBA permanently restores a more favorable limitation rule for determining the amount of deductible business interest expense. Specifically, the law increases the cap on the business interest deduction by excluding depreciation, amortization and depletion when calculating the taxpayer's adjusted taxable income (ATI) for the year. This change generally increases ATI, allowing taxpayers to deduct more business interest expense.

Qualified small business stock

Eligible gains from selling qualified small business stock (QSBS) can be 100% tax-free thanks to a gain exclusion rule. However, the stock must be held for at least five years and other eligibility rules apply. The new law liberalizes the eligibility rules and allows a 50% gain exclusion for QSBS that's held for at least three years, a 75% gain exclusion for QSBS held for at least four years, and a 100% gain exclusion for QSBS held for at least five years. These favorable changes generally apply to QSBS issued after July 4, 2025.

Excess business losses

The OBBBA makes permanent an unfavorable provision that disallows excess business losses incurred by noncorporate taxpayers. Before the new law, this provision was scheduled to expire after 2028.

Paid family and medical leave

The law makes permanent the employer credit for paid family and medical leave (FML). It allows employers to claim credits for paid FML insurance premiums or wages and makes other changes. Before the OBBBA, the credit was set to expire after 2025.

Employer-provided child care

Starting in 2026, the OBBBA increases the percentage of qualified child care expenses that can be taken into account for purposes of claiming the credit for employer-provided child care. The credit for qualified expenses is increased from 25% to 40% (50% for eligible small businesses). The maximum credit is increased from \$150,000 to \$500,000 per year (\$600,000 for eligible small businesses). After 2026, these amounts will be adjusted annually for inflation.

Termination of clean-energy tax incentives

The OBBBA terminates a host of energy-related business tax incentives including:

- The qualified commercial clean vehicle credit, effective after September 30, 2025.
- The alternative fuel vehicle refueling property credit, effective after June 30, 2026.
- The energy efficient commercial buildings deduction, effective for property the construction of which begins after June 30, 2026.
- The new energy efficient home credit, effective for homes sold or rented after June 30, 2026.
- The clean hydrogen production credit, effective after December 31, 2027.
- The sustainable aviation fuel credit, effective after September 30, 2025.

More to come

In the coming months, the IRS will likely issue guidance on these and other provisions in the new law. We'll keep you updated, but don't hesitate to contact us for assistance in your situation.