Tax filing update for pass-through entities

Do you operate a business as a partnership, a limited liability company (LLC) treated as a partnership for tax purposes or an S corporation? In tax lingo, these are called "pass-through" entities because their taxable income items, tax deductions and tax credits are passed through to their owners and taken into account on the owners' federal income tax returns. These entities generally don't owe any federal income tax themselves. Here are some important things to know about tax filing for pass-through entities.

March 16 deadline

Even though pass-through entities generally don't owe federal income tax at the entity level, they still must file a federal income tax return. Partnerships and LLCs treated as partnerships for tax purposes file Form 1065, "U.S. Return of Partnership Income." S corporations file Form 1120-S, "U.S. Income Tax Return for an S Corporation."

If your pass-through entity uses the calendar year for tax purposes, as most do, the deadline for filing the federal income tax return for its 2025 tax year is March 16, 2026 (because March 15 falls on a Sunday).

The March 16 deadline can be extended by six months to September 15, 2026, by filing IRS Form 7004, "Application for Automatic Extension of Time to File Certain Business Income Tax, Information, and Other Returns," by March 16.

Keep in mind that if you file an extension for the pass-through entity's return, you (and any other owners) will also likely also need to file extensions to October 15, 2026, for your individual 2025 return.

Schedules K-1

For each tax year, pass-through entities must send out Schedules K-1 to their owners. These forms report each owner's share of the entity's tax items. Schedules K-1 can be sent to owners electronically. And they must be included with the entity's federal income tax return for the year.

Because pass-through entity owners rely on Schedules K-1 to prepare their returns, it's desirable to get them out as early as possible. However, if an entity's 2025 return filing deadline is extended to September 15, 2026, that also becomes the deadline for providing Schedules K-1 to the owners.

3 tax law changes to note

The One Big Beautiful Bill Act (OBBBA), signed into law July 4, 2025, included several tax changes that will affect 2025 returns of pass-through entities. Here are three of the most important:

1. First-year depreciation. The OBBBA permanently restored 100% first-year depreciation for eligible assets acquired and placed in service after January 19, 2025. Before the OBBBA, 100% bonus depreciation was last allowed for eligible assets placed in service in 2022.

For eligible assets placed in service in tax years beginning in 2025, the OBBBA increased the maximum amount that can be immediately deducted via the first-year Section 179 expensing election to $2.5 million (up from $1.25 million before the OBBBA). The deduction begins to phase out dollar for dollar when asset acquisitions for 2025 exceed $4 million (up from $3.13 million before the OBBBA).

The OBBBA also established 100% first-year depreciation for nonresidential real estate that's classified as qualified production property. That basically means factory buildings.

2. R&E expenditures. The OBBBA allows businesses to immediately deduct eligible domestic research and experimental (R&E) expenditures that are paid or incurred in tax years beginning in 2025 and beyond. Before the OBBBA, these expenditures had to be amortized over five years.

Eligible small businesses can elect to apply the new immediate deduction rule retroactively to pre-2025 tax years beginning in 2022, 2023 or 2024. Also, all taxpayers that made R&E expenditures in tax years beginning in 2022 through 2024 can elect to write off the remaining unamortized amount of their R&E expenditures over a one-year or two-year period starting with the tax year beginning in 2025.

3. Business interest expense deductions. For tax years beginning in 2025 and beyond, the OBBBA permanently installed more favorable rules for determining how much business interest expense can be currently deducted. While most small and midsize businesses are exempt from the business interest expense deduction limitation rules, check with us regarding the status of your pass-through entity.

Time to get rolling

The filing deadline for the 2025 federal income tax returns of most pass-through entities is looming. While the deadline can be extended by six months, you must take action by March 16, at minimum, to file for an extension. Contact us to get things rolling.