2025 YEAR-END TAX PLANNING GUIDE FOR BUSINESSES

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PRIVATE COMPANIES

From Survive to Thrive

Private companies find themselves navigating a tax landscape marked by rapid change and increasing complexity. The wave of legislative, economic, and technological developments over the past year has created novel challenges. It's not enough to merely survive.

All businesses are facing external challenges, and the most agile companies are often the most successful. Private companies should focus on converting new developments into opportunities to thrive. And there is no shortage of new developments this year.

Tariff policy often seemed to change by the hour, and the situation continues to evolve. Fortunately, mitigation tools and planning responses can help companies thrive despite the challenges.

On the tax side, sweeping new legislation will have major implications for private businesses. For example, companies will enjoy new opportunities to accelerate deductions for research and equipment. Changes to the limit on the interest deduction could be even more important for highly leveraged companies, particularly those owned by private equity. The most significant provisions include options for implementation, and planning decisions on one provision can affect others. Modeling will help identify beneficial strategies. A bevy of less heralded changes can also affect tax planning.

Private companies organized as pass-through entities must address a second layer of tax considerations: taxation at the owner level. While this year's tax legislation doesn't change the math on entity choice in profound ways, it does create new opportunities to structure business and investment activities tax efficiently. State taxes will be another important factor in these planning decisions, and numerous state tax law changes over the past year present their own issues.

With the multitude of challenges present today, the tax function must operate efficiently to identify tax risk and planning opportunities. Automation and other tools can help companies deploy the necessary resources to integrate tax considerations into critical business decisions.

This guide is a resource for understanding the most pressing tax issues facing private companies as 2025 closes and a new year begins. It covers important tax developments over the past year and offers practical insights and actionable planning strategies. But remember, no guide can cover every possible consideration, and there may be additional developments after the publication date. There is no substitute for a discussion with a tax professional

Unless otherwise noted, the information contained in this guide is based on enacted tax laws and policies as of the publication date and is subject to change based on future legislative or tax policy changes.

Income Taxes

Regardless of whether your private company is taxed as a C corporation at the 21% rate or organized as a pass-through, the rules for calculating and recognizing income have changed significantly. The One Big Beautiful Bill Act (OBBBA) makes major changes to research expensing, bonus depreciation, and the limit on the interest deduction. Accounting methods planning can help leverage the implementation options. Strategically adopting or changing tax accounting methods to defer (or, in certain cases, accelerate) taxable income recognition can also enhance overall cash tax savings for 2025. The legislative and economic changes over the past year should prompt companies to reevaluate income tax planning at year-end.

100% Bonus Depreciation

The OBBBA permanently restores 100% bonus depreciation for most investments in business property acquired and placed in service after January 19, 2025. Property is considered acquired no later than the date the taxpayer enters into a binding written contract for its acquisition. Eligible property includes tangible property with a class life of 20 years or less under the modified accelerated cost recovery system (MACRS), computer software, qualified improvement property, and other property listed in Section 168(k).

Property acquired on or before January 19, 2025, and placed in service after that date remains subject to the bonus depreciation phasedown rules under the Tax Cuts and Jobs Act (TCJA) — 40% for property placed in service in calendar year 2025 (60% for longer production period property and certain aircraft). Used property remains eligible for 100% bonus depreciation if it meets certain additional requirements.

The OBBBA continues to allow taxpayers to elect out of bonus depreciation by property class. However, the OBBBA also gives taxpayers the ability to elect 40% bonus depreciation instead of 100% bonus depreciation for the first tax year ending after January 19, 2025 (60% for longer production period property and certain aircraft).

The OBBBA also increases the annual Section 179 expensing limit from $1 million to $2.5 million, with a phaseout threshold of $4 million (increased from $2.5 million). The changes to Section 179 are effective for property placed in service after December 31, 2024, with both the deduction and the phaseout threshold indexed for inflation in future years. For taxpayers eligible to use Section 179 expensing, the yearly expensing election can be used in addition to bonus depreciation to claim deductions for property not eligible for bonus depreciation or to deduct only a portion of the property's cost.

Determining the property's acquisition date. The acquisition date will be critical for determining whether property is eligible for 100% bonus depreciation. It is not clear yet whether the IRS will provide new guidance for determining the acquisition date or rely on existing regulations issued in 2019 and 2020 after the bonus depreciation changes made by the TCJA. Under the existing guidance, if the acquisition is subject to a written binding contract, the taxpayer must look to the terms of the contract to determine the property's acquisition date for bonus depreciation eligibility.

The property is deemed acquired on the later of the following dates:

- The date the contract is entered into;
- The date the contract becomes enforceable under state law;
- If the contract has one or more cancellation periods, the date on which all cancellation periods end; or
- If the contract has one or more contingency clauses, the date on which all conditions subject to such clauses are satisfied.

Self-constructed property is deemed acquired when manufacturing, construction, or production of a significant nature begins, using a facts-and-circumstances test. Under a safe harbor, a taxpayer may choose to determine that physical work of a significant nature begins at the time the taxpayer pays or incurs more than 10% of the total costs of the property. When property is acquired, or manufactured, constructed, or produced for the taxpayer by another person, under a contract that does not meet the definition of a written binding contract, the property's acquisition date is the date on which the taxpayer has paid or incurred more than 10% of the total cost of the property, excluding the cost of land and preliminary activities.

Under the framework provided in the existing regulations, bonus depreciation can apply to qualifying components of a larger property acquired and placed in service after January 19, 2025, even if the larger property doesn't meet the requirements.

Planning Considerations

Accounting methods can be a powerful planning tool with depreciation. The recovery period over which depreciation is claimed impacts the calculation of taxable income over a number of years. In many cases, taxpayers have the flexibility to determine how much depreciation to claim in the year assets are placed in service. By claiming the default 100% bonus depreciation, electing out for certain categories of assets (or all assets), or making other available elections to slow down depreciation, taxpayers can manage taxable income in ways that benefit many other calculations.

New 100% Expensing of Qualified Production Property

The OBBBA adds Section 168(n) to the Internal Revenue Code, which introduces special 100% expensing for a new separate class of building property known as "qualified production property" (QPP). Under Section 168(n), taxpayers can elect to fully deduct amounts invested in QPP in the year the property is placed in service. Unlike bonus depreciation, which applies unless the taxpayer elects out, taxpayers must elect QPP expensing for each tax year it is claimed.

QPP includes any portion of nonresidential real property that meets the following requirements:

- Construction of the property begins after January 19, 2025, and before January 1, 2029;
- The property is placed in service within the U.S. or a possession of the U.S. before January 1, 2031;

- The property is used by the taxpayer as an integral part of a qualified production activity;
- The property's original use commences with the taxpayer; and
- The property is not required to use the alternative depreciation system.

An exception to the original use requirement applies to certain acquired QPP that is acquired after January 19, 2025, and before January 1, 2029, and was not used in a qualified production activity between January 1, 2021, and May 12, 2025.

QPP does not include any portion of building property used for offices, administrative services, lodging, parking, sales activities, research activities, software engineering activities, or other functions unrelated to a qualified production activity. In addition, QPP does not include property leased by the taxpayer to another party. Special recapture rules apply to dispositions of property that ceases to be used as part of a qualified production activity.

What is a Qualified Production Activity?

A qualified production activity includes manufacturing, production (limited to agricultural and chemical production), and refining a qualified product. A qualified product includes tangible property, but excludes food and beverages prepared in the same building as a retail establishment in which they are sold.

A qualified production activity must result in a substantial transformation of the property. The OBBBA directs the IRS to issue guidance regarding what constitutes substantial transformation and indicates the guidance should be consistent with substantial transformation guidance under Section 954(d).

> **Planning Considerations**
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> The ability for certain taxpayers to deduct new investments in production facilities also offers a substantial benefit for producers. It will be critical to determine whether the activities meet the definition of production. Companies with qualifying facilities will also need to carve out costs for any nonproduction functions

Deductibility of R&E Expenditures

The OBBBA creates new Section 174A, which reinstates the full deductibility of domestic research costs in the year paid or incurred, effective for tax years beginning after December 31, 2024. Software development remains statutorily included in the definition of research costs for purposes of Section 174A. Taxpayers have the option of electing to capitalize and amortize Section 174A amounts beginning with the month in which the taxpayer first realizes benefits from the expenses, with a 60-month minimum amortization period. The legislation also modifies Section 280C(c), requiring taxpayers to reduce their Section 174A deduction by the amount of their research credit or alternatively elect to reduce the amount of their credit.

Prior to the OBBBA, the TCJA required taxpayers to capitalize specified research and experimental (R&E) costs incurred in tax years after December 31, 2021, and amortize the costs of domestic research over five years and 15 years for research conducted outside the U.S. The OBBBA retains the Section 174 15-year amortization requirement for foreign research costs. Given the revisions to the treatment of domestic research, most taxpayers with domestic R&E costs will need to file at least one method change with their first tax year beginning after December 31, 2024, to comply with Section 174A.

The OBBBA includes a transition rule that allows taxpayers to elect to claim any unamortized domestic R&E costs incurred in calendar years beginning after December 31, 2021, and before January 1, 2025, in either their first tax year beginning after 2024 or ratably over their first two tax years beginning after 2024. Note that this election to accelerate the unamortized costs is considered a separate change in method of accounting from the general change to comply with Section 174A described above.

Eligible small business taxpayers can elect to file amended returns to claim full deductions for domestic R&E costs for tax years before 2025 (the small business taxpayer retroactivity election), or to file an accounting method change with tax returns beginning before January 1, 2025, to deduct the costs. This election is not available to small business taxpayers that are tax shelters, such as pass-through entities that allocate more than 35% of their losses to limited partners or limited entrepreneurs.

Rev. Proc. 2025-28 provides procedural guidance for complying with or utilizing various elections available under new Section 174A, including the small business taxpayer retroactivity election and any accounting method change that may be needed for foreign R&E costs.

Planning Considerations

For domestic R&E costs, taxpayers should carefully consider whether they wish to change to the new deduction method or the new capitalization and amortization method beginning with the 2025 year. Expenses claimed under the new deduction method are not amortization for purposes of the Section 163(j) interest limitation addback, and expensing Section 174A costs will limit some taxpayers’ ability to deduct current year business interest. Taxpayers will likely not be able to change their method within a five-year period without having to file a non-automatic accounting method change.

The election to accelerate unamortized domestic R&E costs incurred from 2022 through 2024 should also be carefully analyzed to determine whether acceleration is beneficial, considering the impact on other Code sections with calculations based on taxable income. Although there is currently no explicit guidance on this issue, the acceleration of this amortization should still be considered amortization for purposes of the Section 163(j) addback.

Pass-Through Deduction

The OBBBA makes permanent the 20% deduction for qualified business income under Section 199A and favorably adjusts the phaseout of the deduction for taxpayers who do not meet the wage expense and capital investment requirements or who participate in a “specified service trade or business.”

Planning Considerations

The permanence of this provision provides welcome certainty for private companies engaged in qualifying activities. The deduction is not available for a range of specified service businesses. There may be opportunities to segregate activities and to increase or allow deductions. The safe harbor for rental activity to qualify as a Section 199A trade or business under Rev. Proc. 2019-38 remains in effect.

Limit on the Interest Deduction

The OBBBA permanently restores the exclusion of amortization, depreciation, and depletion from the calculation of adjusted taxable income (ATI) for purposes of Section 163(j), which generally limits interest deductions to 30% of ATI. The change is effective for tax years beginning after 2024.

The change will be particularly important for portfolio companies owned by private equity funds and other highly leveraged entities. The more favorable treatment may allow many capital-intensive businesses to escape the limit on their interest deductions altogether. Some portfolio companies, however, will still need to plan around the limit.

The OBBBA generally shuts down interest capitalization planning for tax years beginning after 2025. Interest capitalized to other assets, other than interest capitalized to straddles under Section 263(g) or to specified production property under Section 263A(f), will remain part of the Section 163(j) calculation. Further, ATI will exclude income from Subpart F and global intangible low-taxed income (now net CFC tested income) inclusions and Section 78 gross-up for tax years beginning after 2025.

Planning Considerations

Private companies with interest deductions that will remain limited under the new rules in 2025 should consider capitalizing interest in 2025 while the planning is still available. The OBBBA will not claw back any interest capitalized to other assets in tax years beginning before 2026, even if the capitalized interest has not been fully recovered with the asset. Taxpayers managing the limit should also consider the impact of other decisions on the tax return. As discussed above, capitalizing research costs, for example, could allow more interest to be deducted. Modeling will be key in identifying beneficial strategies.

Year-end Opportunities to Defer (or Accelerate) Taxable Income

Companies still have time to take advantage of opportunities to change their tax accounting methods for 2025 and future years. Companies that want to reduce their 2025 taxable income (or create or increase a net operating loss) should consider "traditional" accounting method planning — method changes that accelerate deductions into 2025 or defer income recognition to a later year. However, some businesses may instead want to use "reverse" accounting method planning to accelerate taxable income into 2025 or defer deductions to later years. Reverse method planning may be prudent, for example, for taxpayers that wish to accelerate the use of net operating losses or to mitigate unfavorable limitations, such as the limitation on the deduction for business interest expense.

In addition to the planning considerations discussed above related to depreciation and R&E costs, common items for which accrual basis taxpayers may have flexibility to change their method of accounting include the following:

Advance payments. A taxpayer may recognize income from certain advance payments (e.g., upfront payments for goods, services, gift cards, use of intellectual property, sale or license of software) in the year of receipt or defer recognizing a portion until the following year.

Recurring liabilities. Certain liabilities such as taxes, warranty costs, rebates, allowances, and product returns are required to be deducted in the year paid but may be accelerated using the "recurring item exception."

Accrued bonuses. Under carefully drafted bonus plans, taxpayers may deduct employee bonuses in the year they are earned (the service year) or, if the bonuses are not paid within two and a half months after year-end, in the year the bonuses are paid. While many taxpayers wish to have a provision that a bonus is not paid to an employee who departs before the date of the bonus payment, taxpayers may be able to implement strategies that allow for an accelerated deduction for tax purposes while retaining the employment requirement on the bonus payment date.

Prepaid expenses. Under the "12-month rule," a taxpayer may deduct prepaid expenses for certain incurred liabilities — such as insurance, government licensing fees, software maintenance contracts, and warranty-type service contracts — in the year the expense is paid, rather than having to capitalize and amortize the amounts over a future period.

Uniform capitalization costs. A taxpayer may change its method for calculating the amount of uniform capitalization costs capitalized to ending inventory, including changing to simplified methods available under Section 263A.

Casualty or abandonment losses. A taxpayer may be able to claim a deduction for certain types of losses it sustains during a tax year — including losses due to casualties or abandonment of property, among others — that are not compensated by insurance or otherwise.

Worthless inventory. A taxpayer may be able to accelerate losses related to inventory that is obsolete, unsalable, damaged, defective, or no longer needed by disposing of or scrapping the inventory by the end of the taxable year. Taxpayers also may be able to write down the cost of qualifying "subnormal goods" held at the end of the year.

Electing shorter depreciable lives. A taxpayer may be able to deduct "catchup" depreciation (including bonus depreciation, if applicable) for assets placed in service in prior years and mistakenly classified as longer recovery period property, by reviewing their fixed asset schedules or by performing a cost segregation study to identify assets eligible for an accounting method change to shorter recovery periods.

Accounting Method Changes Require IRS Approval. The rules for changing tax accounting methods are often complex and usually require taxpayers to submit a request to change their method of accounting to the IRS. The procedure for changing a particular method depends on the mechanism for receiving IRS consent, i.e., whether the change is "automatic" or "non-automatic." Rev. Proc. 2025-23, as modified by Rev. Proc. 2025-28, contains the current list of automatic method changes.

The automatic change procedure generally requires a taxpayer to attach a Form 3115 to the timely filed (including extensions) federal tax return for the year of change and to file a separate copy of the Form 3115 with the IRS no later than the filing date of that return. However, non-automatic method changes, for which more information must be provided and which are more complex, require an application to be filed with the IRS prior to the end of the tax year for which the change is requested — i.e., prior to December 31, 2025, for 2025 calendar-year accounting method changes. Additional issues or procedures may need to be considered if a taxpayer is under IRS exam. Requests for accounting method changes that otherwise qualify as automatic must be submitted using the non-automatic change procedures if the taxpayer has made a change with respect to the same item within the last five years.

Planning Considerations

Taxpayers have numerous options when choosing methods of accounting and elections for various items of taxable income or deductible expense. These decisions may shift the amount of taxable income reported in a taxable year and can have consequences for purposes of other Code provisions. These other provisions may include the Section 55 corporate alternative minimum tax, disallowed business interest expense under Section 163(j), net CFC tested income (formerly global intangible low-taxed income) and/or foreign-derived deduction-eligible income (formerly foreign-derived intangible income) under Section 250, and the amount of base erosion and anti-abuse tax (BEAT). Taxpayers should also consider the impact of their accounting methods and planning on state returns, especially when states do not follow federal Code provisions.

Taxpayers should holistically model the implications of making accounting method changes and elections in all planning scenarios before deciding which method changes or elections to pursue.

Partnerships

Over the last several years, the IRS has been ramping up its scrutiny of partnership tax positions. Part of this effort included comprehensive basis shifting guidance issued in the summer of 2024. In 2025, the trend toward increased partnership enforcement eased under the new administration, which has withdrawn the bulk of the basis shifting guidance. And while the enactment of OBBBA was the major tax event of the year, the legislation's direct impact on partnership tax was limited.

Nonetheless, there were some important developments for private companies organized as partnerships in 2025.

Limited Partner Claims of Exemption from Self-Employment Tax

Partnerships, particularly management fund entities, may need to revisit their tax positions on self-employment tax after a series of IRS court victories on the issue.

In the latest decision in December 2024, the Tax Court held in Denham Capital Management LP v. Commissioner that "active" limited partners in an investment management company formed as a limited partnership were subject to self-employment (SECA) tax and not entitled to the statutory exemption for limited partners.

The Tax Court relied on its earlier decision in Soroban Capital Partners LP v. Commissioner, which held that the determination of limited partner status is a "facts and circumstances inquiry" that requires a "functional analysis." However, the Denham case is the first in which the Tax Court applied the functional analysis of whether a state law limited partner was, in fact, active in the business of the partnership and a "limited partner" in name only. The key issue in the Denham case, as in Soroban, was whether limited partners in state law limited partnerships may claim exemption from SECA taxes – despite being more than passive investors.

Credits and Incentives

With all the challenges facing private companies this year, it's critical that they leverage every available tax benefit. Fortunately, lawmakers have packed the Code with credits and incentives designed to reward taxpayers for certain types of activities and investments. The OBBBA made significant revisions to energy credits, imposing new restrictions and phasing out many of the credits early. Despite the changes, there is still considerable runway for many projects, and the tax equity financing and credit transfer markets should both be robust over the next several years. In addition, the OBBBA enhanced existing incentives in ways that offer new opportunities for tax-efficient structuring.

Energy Provisions Following Enactment of the OBBBA

The OBBBA has reshaped the energy credit landscape. Several credits were extended or enhanced, while many others are subject to new sourcing and investment requirements or are phasing out early. The legislation does not affect the ability to transfer or claim refundable payments for specified credits

Consumer Credits

The OBBBA repeals several energy-related tax credits directed to consumers, each with distinct effective dates:

- Section 25E – Previously Owned Clean Vehicle Credit
  Repealed for vehicles acquired after September 30, 2025.
- Section 30D – Clean Vehicle Credit
  Repealed for vehicles acquired after September 30, 2025.
- Section 45W – Commercial Clean Vehicle Credit
  Repealed for vehicles acquired after September 30, 2025.
- Section 30C – Alternative Fuel Refueling Property Credit
  Repealed for property placed in service after June 30, 2026.
- Section 25C – Energy-Efficient Home Improvement Credit
  Repealed for property placed in service after December 31, 2025.
- Section 25D – Residential Clean Energy Credit
  Repealed for expenditures made after December 31, 2025.
- Section 45L – New Energy-Efficient Home Credit
  Repealed for property acquired after June 30, 2026.

Depreciation

The bill eliminates the five-year depreciable life for qualified energy property, and the Section 179D deduction is repealed for construction beginning after June 30, 2026.

Sections 48E and 45Y – Investment and Production Tax Credits

The OBBBA accelerates the phaseout of the investment tax credit under Section 48E and the production tax credit under Section 45Y. Projects that begin construction after 2033 will generally no longer qualify for these credits, with solar and wind facilities facing even earlier deadlines. To remain eligible, solar and wind projects that begin construction after July 4, 2026, must be placed in service by the end of 2027.

The legislation also introduces new restrictions related to prohibited foreign entities. Facilities beginning construction after December 31, 2025, may not receive material assistance from such entities. Material assistance is determined based on a cost ratio tied to the sourcing of eligible components. In addition, Section 48E now includes stricter domestic sourcing requirements to obtain the 10% bonus credit, reflecting a broader policy shift toward supply chain security and energy independence.

Importantly, the IRS has tightened the rules for establishing that construction has begun for purposes of the July 4, 2026, deadline for solar and wind facilities. Under Notice 2025-43, the 5% safe harbor method is available only if taxpayers can use it to establish that construction began by September 1, 2025. Starting September 2, the physical work test is the sole method for establishing beginning of construction (BOC) for wind and solar projects for purposes of the July 4, 2026, deadline.

This change applies to the credit phaseouts under the OBBBA, but not to the foreign entity of concern (FEOC) rules. For FEOC exemption purposes, facilities may still use the 5% safe harbor to establish that construction began by December 31, 2025. Additionally, low-output solar facilities (≤1.5 MW AC) may continue to use the 5% safe harbor beyond that date. The four-year continuity safe harbor remains in place for projects that meet BOC requirements.

Historically, taxpayers could rely on either the physical work test or the 5% safe harbor. Notice 2025-42 now limits this to the physical work test, which requires significant physical work related to the energy property, either on-site or off-site, under a binding contract. Preliminary activities like design or site clearing do not qualify.

To maintain credit eligibility, taxpayers must also meet the continuity requirement, which can be satisfied if the facility is placed in service within four years of the BOC year.

Planning Considerations

Facilities must establish BOC by December 31, 2025, to avoid FEOC restrictions beginning in 2026, and facilities can continue to rely on the 5% safe harbor specifically for the purpose of meeting this deadline through the end of 2025. Solar and wind projects beginning construction more than 12 months after the OBBBA enactment must be placed in service by the end of 2027 to qualify for Section 48E or 45Y credits. Facilities that establish BOC by the deadline can rely on the four-year continuity safe harbor to place in service and preserve credit eligibility.

Section 45X – Advanced Manufacturing Credit

The advanced manufacturing credit under Section 45X has been modified significantly. While the credit is repealed for wind energy components sold after 2027, it remains available for other eligible components before a phasedown begins in 2031. Components sold in 2031 will qualify for a 75% credit, decreasing to 50% in 2032 and 25% in 2033. The credit is fully repealed for sales occurring in 2034 or later. Notably, the scope of the credit has been expanded to include metallurgical coal. As with other energy provisions, the material assistance restrictions for prohibited foreign entities apply to all qualifying components

Section 45Z – Clean Fuel Production Credit

Under the OBBBA, the clean fuel production credit under Section 45Z has been extended through 2031. The bill also reinstates the small agri-biodiesel credit under Section 40A, which can now be stacked with the 45Z credit. A new geographic restriction has been added, disallowing the credit unless the feedstock is produced or grown in Canada, Mexico, or the U.S. Additionally, the methodology for calculating greenhouse gas emissions has been revised to exclude indirect land use changes. Prohibited foreign entity rules have also been extended to apply to clean fuel production facilities.

Other Energy Provisions

The clean hydrogen production credit under Section 45V is repealed for construction beginning after 2027 — two years later than previously proposed. Section 45Q credit rates for carbon capture used as a tertiary injectant or for productive use are increased to match those for permanent geologic storage, with new foreign entity restrictions.

Publicly traded partnership (PTP) rules now include income from carbon capture; nuclear, hydropower, and geothermal energy projects, as well as the transport or storage of sustainable aviation fuel or hydrogen. The nuclear production credit under Section 45U is also subject to foreign entity restrictions.

> **Planning Considerations**
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> Taxpayers should assess project timelines and sourcing strategies in light of phaseouts and new restrictions. For Sections 45Y and 48E, construction must begin within eligibility windows — especially for solar and wind projects facing a 2027 placed-in-service deadline.
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> Supply chain planning is critical to avoid disqualification under foreign entity rules. Manufacturers of wind property eligible for Section 45X should consider accelerating production before the phaseout in 2027. Clean fuel producers must ensure feedstock sourcing complies with geographic limits and updated emissions rules.
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> Entities pursuing carbon capture, hydrogen, or nuclear projects should factor in expanded PTP eligibility and foreign entity restrictions when structuring financing and partnerships. Early action can help preserve credit eligibility and provide long-term benefits.

State Tax Credit Transfers

Following the enactment of the OBBBA, many states have expanded or introduced transferable tax credit programs, particularly in clean energy, affordable housing, and infrastructure. These programs allow taxpayers to sell unused credits to third parties, creating liquidity and broader access to state-level incentives. Transfer mechanisms vary by state, with some requiring pre-approval, certification, or registration, while others impose annual caps or limits on transfer volume. The trend mirrors federal credit transferability under Section 6418 and reflects growing interest in flexible credit monetization strategies.

States are also beginning to adopt market infrastructure—such as broker platforms and insurance products — to support credit transfers and mitigate buyer risk. As more jurisdictions adopt these frameworks, taxpayers with multistate operations should monitor developments closely to identify new opportunities.

Planning Considerations

Taxpayers should assess eligibility and timing for generating transferable credits, especially in states with strict certification or sourcing requirements. Early coordination with legal and tax advisors is essential to confirm compliance with documentation and reporting rules. Buyers should conduct due diligence on project qualification, transfer terms, and potential recapture risks.

Engaging with credit brokers or marketplaces may help improve pricing and identify reliable counterparties. Additionally, taxpayers should consider how state credit transfers interact with federal incentives, particularly in structuring financing and partnership arrangements. Strategic planning now can help enhance credit value and avoid missed opportunities as state programs continue to evolve.

OBBBA Makes New Markets Tax Credit Program Permanent

The New Markets Tax Credit (NMTC) program supports capital investments in low-income communities by offering tax credit-subsidized loans to eligible businesses for use toward eligible costs (e.g., real estate and furniture, fixtures, and equipment (FFE)). These loans often feature interest-only terms, below-market rates, and principal forgiveness after seven years, providing a permanent cash benefit to businesses.

Previously set to expire at the end of 2025, the NMTC program was made permanent by the OBBBA, with a continued annual allocation authority of $5 billion. Eligible businesses — both for-profit and nonprofit — can apply for NMTC financing for capital expenditure projects in qualifying census tracts. The program supports a wide range of sectors, including manufacturing, healthcare, education, renewable energy, and retail, though it excludes farming and residential rental activities.

Each year, certified Community Development Entities (CDEs) apply to the CDFI Fund for NMTC allocations. If awarded an allocation, CDEs raise equity from tax credit investors and deploy capital to eligible businesses (otherwise known as Qualified Active Low Income Community Businesses) based on community impact and strategic priorities, which may vary by geography or industry.

Planning Considerations

The NMTC program remains highly competitive. Early engagement with CDEs and timely application are critical to securing financing. Businesses should prepare detailed project plans that demonstrate strong community impact and align with CDE priorities. Acting early improves the likelihood of receiving funding and may unlock additional benefits

Work Opportunity Tax Credit Set to Expire

The OBBBA did not extend the work opportunity tax credit (WOTC), which is now set to expire for any individuals who begin work after December 31, 2025. The WOTC provides a valuable incentive for employers who often hire workers from certain targeted populations, including veterans, people with disabilities, people on food assistance, certain youth employees, and ex-felons. Employers who frequently screen for qualified individuals as part of their hiring process should monitor the legislative process for a potential extension of the credit.

R&D Credit Opportunities

The research credit remains one of the most powerful incentives in the tax code, and the IRS continues to receive a high volume of claims, straining examination resources. To improve administration and reduce improper claims, the IRS recently made several changes to Form 6765, clarifying documentation requirements for claiming the credit.

The revised Form 6765 was partially finalized for tax year 2025, with the IRS making optional the mandatory reporting of qualified research expenses (QREs) by business component in Section G of the form. When Section G becomes mandatory for the 2026 tax year, taxpayers will be required to disclose the top 80% of QREs, with controlled group members required to attach detailed breakdowns by entity. Section E is currently mandatory and includes new questions related to officer wages, acquisitions, and use of the ASC 730 directive. These updates reflect the IRS's ongoing efforts to enhance transparency and strengthen audit readiness.

In response to ongoing compliance concerns, the IRS has increased scrutiny of research credit filings, including more frequent audits. However, due to temporary resource constraints, some IRS Exam functions are operating at reduced capacity, which may delay enforcement actions. Taxpayers should confirm that they are properly documenting claims and explore state credit opportunities.

State Credit Changes

Over the past year, several states have enacted or revised legislation related to research and development (R&D) tax credits. These changes reflect a growing trend to incentivize innovation and attract high-tech investment.

These states include:

Arizona: Arizona now permits use of the alternative simplified credit (ASC) method for computing its credit for increased research activities. This provides greater flexibility and may result in increased benefits. Refundable credits are available for small businesses with fewer than 150 employees, subject to pre-approval from the Arizona Commerce Authority.

Arkansas: Arkansas expanded its credit options, offering up to 33% for strategic research areas and university partnerships. Credits are nonrefundable but can offset 100% of state tax liability and be carried forward for up to nine years.

Connecticut: Connecticut expanded its R&D and R&E credits under H.B. 7287. Single-member LLCs may now qualify if they meet specific criteria. Refundability increased to 90% for small biotech firms and 65% for other small businesses, capped at $1.5 million per company annually.

Iowa: Iowa enacted Senate File 657, replacing its research activities credit with a targeted R&D tax credit program effective January 1, 2026. Eligibility is limited to sectors such as advanced manufacturing, bioscience, finance, insurance, and technology. Credits are capped at $40 million annually and require CPA-verified QREs and a competitive application process through the Iowa Economic Development Authority.

Massachusetts: Massachusetts increased the maximum allowable credit for certain industries and introduced new documentation requirements for software development and AI-related R&D.

Michigan: Effective January 1, 2025, Michigan reintroduced its R&D tax credit. Large businesses may claim 3% of qualifying expenses up to a base amount and 10% above it, capped at $2 million. Small businesses may claim 15% above the base amount, capped at $250,000. An additional 5% credit is available for university collaborations, capped at $200,000. The credit is refundable and subject to a $100 million annual cap.

Minnesota: Minnesota introduced partial refundability for its R&D credit: 19.2% for 2025, increasing to 25% for 2026–2027.

Oklahoma: Oklahoma revised its R&D credit to align more closely with federal QRE definitions and introduced a new pre-approval application process.

Texas: Texas enhanced its franchise tax R&D credit via SB 2206 and repealed the R&D equipment sales tax exemption effective January 1, 2026.

Planning Considerations

Navigating the R&D credit has become more complex amid heightened review, evolving case law, and new compliance measures. Taxpayers should make sure claims are well-supported and consistent with updated guidance to reduce audit risk and avoid delays.

Taxpayers should carefully assess eligibility for both federal and state research credits, maintain contemporaneous documentation, and prepare to defend claims under examination. Strategic planning is essential to leveraging available incentives, especially given the complexity and variability of state-level programs. Using a trusted tax advisor can help taxpayers maintain compliance with IRS and state regulations and effectively substantiate research credit claims.

OBBBA Changes Rules for Qualified Small Business Stock

The OBBBA significantly enhances a tax-efficient structuring option for private companies. Qualified small business stock (QSBS) under Section 1202 offers tax-free appreciation and has been increasingly used by private equity in recent years.

Enacted in 1993, Section 1202 generally allows a non-corporate taxpayer to exclude a percentage of the gain from the sale or exchange of QSBS held for more than five years. The eligible gain exclusion percentage is based on the date the stock is issued.

For stock issued before July 5, 2025, the maximum amount of gain on QSBS that can be excluded for any tax year by each taxpayer with respect to each issuing C corporation is generally limited to the greater of: (i) $10 million, minus the amount of gain excluded by that taxpayer in prior years with respect to the same issuing corporation; or (ii) 10 times the taxpayer's aggregate adjusted basis in the QSBS sold during the tax year.

For stock issued after July 4, 2025, the OBBBA increases the $10 million limit to $15 million and adjusts this limit for inflation beginning in 2027. In addition, the OBBBA creates a new 50% and 75% gain exclusion categories for QSBS held for at least three and four years, respectively.

The various QSBS exclusion percentages, exclusion limits, and required holding periods by stock issuance date are set out in the table below.

QSBS Issued:		**Percentage of Eligible Gain Excluded**	**Limited to Greater of 10x Basis or**	**Required Holding Period (Years)**
After	**and Before**			
8/10/1993	2/18/2009	50%	$10M	More than 5
2/17/2009	9/28/2010	75%	$10M	More than 5
9/27/2010	7/5/2025	100%	$10M	More than 5
7/4/2025		50%	$15M	3
7/4/2025		75%	$15M	4
7/4/2025		100%	$15M	5 or more

The OBBBA also increases the limit on aggregate gross assets to satisfy the qualified small business test for purposes of Section 1202.

These thresholds are now as follows:

- At all times through the date of issuance, the corporations aggregate gross assets must not have exceeded $50 million for issuances before July 5, 2025, or $75 million for issuances after July 4, 2025; and

- Immediately after the date of issuance (and after considering amounts the corporation received in the issuance) the aggregate gross assets of the corporation must not exceed $50 million or $75 million for issuances before July 5, 2025, or after July 4, 2025, respectively.

Aggregate gross assets are defined as cash plus the aggregate adjusted tax basis of the corporation's other assets.

Planning Considerations

After an issuance is deemed to be QSBS under Section 1202, the corporation's gross assets can exceed the applicable threshold (either $50 million or $75 million) at a later date without prohibiting the previously issued stock from receiving Section 1202 treatment. By increasing the threshold, the OBBBA renews an existing corporation's ability to issue QSBS if their aggregate gross assets have exceeded $50 million in the past but have never exceeded $75 million. This higher threshold also expands the potential QSBS benefits for private equity firms when acquiring target businesses with enterprise values of up to $75 million.

Opportunity Zone Extension Creates Tax Planning Options

The OBBBA made the qualified opportunity zone (QOZ) program permanent, preserving one of the most generous tax incentives ever offered by Congress. The provision can offer benefits to investors looking for tax-efficient returns, individual private companies investing in specific geographies, or asset managers setting up funds.

The OBBBA not only makes the program permanent, but it changes the rules in important ways. Funds and investors should consider the implications for their planning strategies. The changes could affect the timing of gain transactions and capital contributions, the location of investments, and the compliance burdens for funds.

The current QOZ designations will expire at the end of 2026. New zones will be designated in rolling 10-year designation periods under new criteria that are expected to shrink the number of qualifying zones.

As under the current program, taxpayers can defer capital gains by investing in a qualified opportunity fund (QOF). For investments made after 2026, taxpayers will be required to recognize the deferred gain five years after making the investment but will receive a 10% increase in basis for holding the investment five years. For QOFs operating in a new category of rural opportunity zones, this basis increase is 30%. Taxpayers who make investments before the end of 2026 must still recognize the deferred gain at the end of 2026.

The more powerful tax benefit may be the tax-free appreciation on the underlying investment itself. Taxpayers will still receive a full basis step-up to fair market value (FMV) for property held 10 years, but the OBBBA added a rule freezing the basis step-up to the FMV at 30 years after the date of the investment.

The operational rules for QOFs and qualified opportunity zone businesses (QOZBs) are generally unchanged, except for property held in a rural opportunity zone. The threshold for establishing the substantial improvement of qualifying property in a rural opportunity zone will be 50% of basis rather than 100%, effective for any determinations after July 4, 2025. QOFs and QOZBs will both be subject to increased reporting requirements.

Companies looking for new tax-efficient investing opportunities and gain deferral strategies should reassess their investment options, paying particular attention to which geographies are likely to qualify in 2027.

Planning Considerations

The timing of capital gains transactions will be important. Delaying a capital gain transaction could allow taxpayers to make a deferral election in 2027 and defer recognizing the gain until well after the current 2026 recognition date. Conversely, taxpayers planning investments in geographic areas that are unlikely to be redesignated may need to make the investments before the end of 2026. Existing QOFs and QOZBs should consider their long-term capital needs because it is not clear whether any "grandfathering" relief will allow additional qualified investments in funds operating in QOZs that are not redesignated. The new reporting rules will apply to both new and existing QOZs and QOZBs for tax years beginning after the date of enactment, and those entities will need to collect and report substantial new information that has never before been required

Debt Refinancing Transactions

Over the past year, many private companies have refinanced their existing debt to secure current interest rates, with the potential for rates to decrease in the future. Refinancing transactions that result in a "significant modification" of the debt under applicable regulations can have disparate tax consequences depending on the specific circumstances. Although the regulations provide relatively clear rules for determining when a modification is "significant," the application of these rules is highly fact-dependent and frequently requires relatively complex calculations.

Companies should review their debt modification transactions during the year to confirm their tax impact. Companies that are considering changes to existing credit facilities in the coming year should likewise assess whether the proposed change would amount to a significant modification and, if so, determine the tax implications of the modification

Tax Treatment of Debt Modifications

The income tax treatment of debt refinancing transactions is highly fact-specific and requires careful analysis. Certain refinancing transactions may be treated as a taxable retirement of the existing (refinanced) debt, which may give rise to the ability to write off any unamortized debt issuance costs and original issue discount, the latter as "repurchase premium." However, in certain situations a refinancing transaction may also give rise to taxable ordinary income in the form of "cancellation of indebtedness income."

The tax consequences of a debt refinancing transaction hinge in part on whether the transaction results in a significant modification of the debt under rules set out in Reg. §1.1001-3, which results in a deemed retirement of the existing debt in exchange for a newly issued debt instrument.

When Is a Modification Significant?

As a threshold matter, a modification includes not only a change to the terms of an existing debt instrument but would also include an exchange of an old debt instrument for a new one or the retirement of an existing debt instrument using the proceeds of a new debt instrument. Stated differently — it is the substance, not the form, that governs whether debt has been modified for federal income tax purposes.

Whether a modification of a debt instrument constitutes a significant modification depends on the materiality of the changes. The regulations provide a general "economic significance" rule and several specific rules for testing whether a modification is significant. In practice, most debt modifications are covered by two specific rules governing changes in the yield to maturity of a debt instrument (the change in yield test) and deferrals of scheduled payments (the deferral test).

> **Yield test:** Under the change in yield test, a modification is significant if the new yield of the modified debt instrument differs from the old yield of the unmodified debt instrument by more than 25 basis points (i.e., 1/4 of 1%) or 5% of the unmodified yield. Various changes, such as adjusting the interest rate, altering payment schedules, or paying modification fees, can impact the yield. It is not uncommon for a modification with only a minor (or no) change to the stated interest rate to result in a significant modification due to changes in the yield to maturity that result from the payment of modification fees or changes to the due dates for certain payments. This issue is often overlooked.
>
> **Deferral test:** Under the deferral test, a modification is significant if it causes a material deferral of payments. While the test does not define "material deferral," it offers a safe harbor: a deferral is not significant if all payments are unconditionally made within the safe harbor period. This safe harbor period starts on the first deferred payment date and lasts for the lesser of five years or 50% of the original term (e.g., the deferral safe harbor for a five-year debt instrument would be twoand-a-half years).

In applying both the change in yield test and the deferral test, taxpayers are required to consider the cumulative effect of the current modification with any prior modifications (or, in the case of a change in yield, modifications occurring in the past five years). This cumulative rule is particularly noteworthy for taxpayers who routinely modify their debt (and often incur modification fees in connection with the modification), as the results of certain modifications may not be significant when viewed in isolation but may be significant when combined with prior modifications.

Tax Implications of Significant Debt Modifications

A significant modification results in the deemed retirement of the existing debt instrument in exchange for a newly issued debt instrument. The existing debt instrument will be deemed retired for an amount equal to the "issue price" of the newly issued debt instrument, together with any additional consideration paid to the lenders as consideration for the modification.

The issue price of a debt instrument depends on whether the debt instrument was issued for cash or property. If a significant amount (generally 10%) of the debt was issued for money, the issue price will be the cash purchase price. Otherwise, assuming the debt instrument is in excess of $100 million, the issue price will be its fair market value (or the fair market value of the property for which it was issued) if it is "publicly traded." In all other cases, the issue price of the debt instrument will generally be its stated principal amount.

If the issue price of the modified debt instrument (i.e., the repurchase price) is less than the tax-adjusted issue price of the old debt instrument, a borrower will incur cancellation of indebtedness income, which is generally taxed as ordinary income in the current tax year. If instead the repurchase price exceeds the adjusted issue price (this may occur when the old debt instrument had unamortized original issue discount or when the debt is publicly traded and has a fair market value in excess of its face amount), the borrower will incur repurchase premium. Repurchase premium is deductible as interest expense. Special rules apply to determine whether such repurchase premium is currently deductible or is instead amortized over the term of the newly issued debt instrument.

The retirement of an existing debt instrument may also give rise to the ability to deduct any unamortized debt issuance costs. As a general matter, the determination of whether any unamortized debt issuance costs should be written off or carried over and amortized over the term of the new debt instrument generally follows the same analysis as repurchase premium. Notably, debt issuance costs are deducted as ordinary business expenses under Section 162, and therefore are not subject to the limit on business interest expense deduction under Section 163(j).

Finally, a significant modification may give rise to additional tax implications that companies should consider, including the potential for foreign currency gain or loss and the need to "mark-to-market" existing tax hedging transactions.

International Tax

International tax planning is becoming more complex and more important. Major changes to foreign currency and digital content rules will have a significant impact across a broad range of companies and international structures. As important as new guidance is, it may have been eclipsed by legislative developments. The international tax reform in the OBBBA raises novel planning considerations, and ongoing negotiations over Pillar Two could result in meaningful changes for private companies in scope of the rules as we approach year-end.

International Tax Planning After the OBBBA

The OBBBA enacted several changes to the global intangible low-taxed income (GILTI), foreign-derived intangible income (FDII), and the base erosion and anti-abuse tax (BEAT) regimes. Combined with changes in certain domestic provisions, such as Section 174 and Section 168, the changes could have a significant impact on multinational taxpayers.

GILTI Changes

GILTI is now known as "net CFC tested income" (NCTI). The effective tax rate on NCTI changes from 10.5% to 12.6% as a result of the change in the Section 250 deduction (from 50% to 40%). The NCTI foreign tax credit (FTC) haircut was reduced from 20% to 10% and now applies to previously taxed earnings and profits (PTEP) distributions. The reduction for qualified business asset investment (QBAI) was repealed, and the FTC expense allocation toward NCTI is limited to those expenses that are "directly allocable," with carveouts for interest and research and experimentation (R&E). In addition, foreign taxes associated with PTEP are no longer treated as deemed paid under the Section 78 gross-up mechanism. Overall, the changes to NCTI could result in taxpayers generating higher NCTI inclusions in the U.S.

FDII Changes

FDII is now known as "foreign-derived deduction-eligible income" (FDDEI). The effective tax rate on FDDEI changes from 13.125% to 14% as a result of the change in the Section 250 deduction (from 37.5% to 33.34%). As with NCTI, QBAI was repealed, and the FTC expense allocation toward FDDEI is limited to those expenses that are "properly allocable," with carveouts for interest and R&E. Additionally, FDDEI excludes income or gain from dispositions of intangible property (IP) (as defined in Section 367(d)) and any other property subject to depreciation, amortization, or depletion by the seller occurring after June 16, 2025. Overall, the changes to FDDEI are taxpayer favorable, making FDDEI more valuable and accessible, particularly for heavy industry. But the deduction is available only to private companies organized as C corporations.

BEAT Changes

The tax rate increased from 10% to 10.5%.

The OBBBA made several important domestic tax changes that could affect international planning.

These changes were discussed earlier in the corporate income tax chapter and include:

- Permanently restoring full expensing of domestic R&E costs for tax years beginning after December 31, 2024.
- Making bonus depreciation permanent at 100% for property acquired after January 19, 2024.
- Creating a new category of 100% expensing for real property (buildings) involved in qualified production activities if construction begins after January 19, 2025, and before 2030, and the property is placed in service by the end of 2030.
- Permanently removing amortization, depreciation, and depletion from adjusted taxable income for the limit on interest deductions under Section 163(j) for tax years beginning after December 31, 2025.

Effective Dates

Generally, the NCTI, FDDEI, and BEAT changes are effective for tax years beginning after December 31, 2025. As mentioned, 100% bonus depreciation is effective for property acquired and placed in service after January 19, 2025, while businesses can immediately begin deducting domestic R&E expenditures paid or incurred after December 31, 2024.

Planning Considerations

Given the significant changes to NCTI and FDDEI, as well as the changes in the tax rate for BEAT, modeling will be important for multinational taxpayers to effectively plan.

These strategies should be considered, when appropriate:

NCTI

- Increase tested income taxes, as more taxpayers are likely to be in an excess limitation position for FTC purposes.
- Accelerate income into 2025 and/or defer deductions until 2026 and beyond.
- Consider high-tax exclusion election.

FDDEI

- Expense apportionment and lack of QBAI opens up potential planning opportunities, particularly for capital-intensive and research-heavy taxpayers.
- Consider potentially onshoring IP.
- For outbound services, consider increasing inbound income streams if locally deductible.

BEAT

- Consider capitalizing interest, Section 174, and other items.
- Evaluate the services cost method (SCM) exception.
- If subject to Section 1059A, consider increasing cost of goods sold (COGS).

Transfer Pricing

Transfer pricing is consistently one of the top tax issues facing multinational public companies. According to statistics from the Census Bureau, nearly half of all import and export activity occurs between related parties, and every one of those transactions involves transfer pricing. The exposure for companies can be significant, and nearly all of the largest tax disputes in the U.S. involve transfer pricing.

Tariff developments, Pillar Two implementation, and international tax law changes all added to the complexity this year. It's critical for companies to leverage planning options and confirm they are satisfying reporting requirements.

Adopting a Proactive Approach to Transfer Pricing

Adopting a proactive approach to tax process improvements can be an aspirational goal for many tax departments. Resource constraints, business pressures, new technical developments, and other factors can cause even the most meticulously planned schedules to go awry, and before anyone realizes it, year-end is upon them once again.

Rather than feeling discouraged, companies can leverage their experience to understand what is achievable and then prioritize improvement projects that are appropriately sized for their business.

Common Year-End Transfer Pricing Challenges

1. **Large Transfer Pricing Adjustments**: Many companies use transfer pricing adjustments to meet their desired transfer pricing policy. However, significant year-end adjustments can have both income tax and indirect tax implications, leading to further issues and risks.

2. **Lack of Transparency in Calculations**: Transfer pricing calculations are often built in Excel and amended over the course of the years, perhaps to address one-time issues or changing situations. This can result in workbooks that lack a sufficient audit trail and contain hard-coded data, both of which undermine a reviewer's ability to validate the calculations. Additionally, without documentation, the process becomes dependent on the few people working directly on the process, which can create significant knowledge gaps if one of more of the key people leave the company.

3. **Data Constraints**: While the mechanics of most transfer pricing calculations are not complex, difficulties arise because of the variety of data needed (revenues, segmented legal entity P&Ls, headcount, R&D spend) and the challenges in accessing that data. This can lead to shortcuts and unvalidated assumptions.

4. **Year-end Timing:** Some companies close their year-end books with no transfer pricing review, and then rely on book-to-tax adjustments to true up their transfer pricing for tax purposes. While seemingly expeditious, addressing transfer pricing issues in this way can not only result in double taxation, but also may require an election under Revenue Procedure 99-32. For example, to avoid the treatment of any intercompany payments as nondeductible items such as contributions to capital or dividends, the taxpayer should make an election under Rev. Proc. 99-32 and account for the payments using that guidance

Planning Considerations

Develop a Multiperiod Monitoring Process: Implement a process that tracks profitability throughout the year to help reduce significant yearend transfer pricing adjustments. This monitoring can also provide insights into whether underlying intercompany pricing policy changes are needed, allowing for a proactive approach to limit the number and magnitude of year-end adjustments

Identify and Review Material Transactions: Conduct a detailed review of calculation workbooks to pinpoint deficiencies, such as lack of version control, hard-coded amounts with no audit trail, limited or undocumented key assumptions, and an incoherent calculation process. Companies can address one or more of these issues based on timing and resources. Small changes can have a significant impact.

Define a Data-Focused Project: Consider the data needed for transfer pricing calculations, investigate the form and availability of data, identify new data sources, and help data providers understand their importance in the overall process. This can be done on a pilot basis with a material transaction or group of transactions to keep the project manageable. Companies often discover new data sources and form valuable connections with data providers through these projects.

Learning from the year-end process provides clarity on areas that need improvement. These observations can be captured and converted into small improvement projects as soon as possible after year-end.

Customs and Trade

The current trade environment is marked by rapid and often unpredictable changes, posing significant challenges for businesses. Since the Trump administration took office in January, the president has implemented, paused, retracted, and then changed a series of tariffs targeting both major—and not so major—U.S. trading partners, as well as various industry sectors (e.g., autos and auto parts, steel and aluminum, and copper), with pledges of more sectoral tariffs in the future (e.g., pharmaceuticals). The administration's tariff authority is also subject to ongoing legal challenges.

The impact of the tariffs—within and outside the U.S.—has been consequential and includes threats of retaliatory actions from trading partners, increased costs, and supply chain disruptions, and has resulted in considerable uncertainty for businesses engaged in international trade. Businesses may face unexpected duties on goods they import or export, impacting pricing strategies and profit margins. Additionally, the uncertainty can hinder long-term planning and investment decisions, as companies struggle to anticipate future trade policy shifts. In the M&A world, it's becoming more challenging to conduct proper due diligence for any mergers, sales, or acquisitions given the complexity of the tariff liability (spanning at least 11 different kinds of tariffs) and significant cash amounts in play.

Staying informed and proactive is key to navigating these challenges and increasing duty savings, and there are duty and supply chain strategies importers can consider to mitigate the impact of increased costs. Public companies may be able to benefit from the following strategies to manage costs, improve compliance, and maintain agility in their international trade operations.

Duty Drawback

Private companies should take advantage of opportunities for cash refunds of up to 99% of duties, fees, and taxes paid through the duty drawback program. This incentive allows for a refund on imported goods that are subsequently exported, unused, destroyed, or used to manufacture a product that is exported. Note that duty drawback is not available for certain tariffs, including Section 232 and International Emergency Economic Powers Act (IEEPA) fentanyl-related tariffs.

To enhance this benefit, it is essential to:

- Identify the full scope of imports and exports eligible for drawback;
- Estimate the potential cash benefit; and
- Test data and document readiness, especially when the exporter is not the importer of record.

This process involves gathering comprehensive import, production (if applicable), and export data for the five-year look-back period, defining a process for ongoing claim data preparation, and conducting additional data and document testing to support compliance and enhance refund opportunities.

First Sale Rule (FSR)

Goods imported into the U.S. must be properly valued at the time of import for U.S. Customs and Border Protection (CBP) to assess the correct amount of import duties. The primary method for determining customs value is transaction value, which refers to the price actually paid or payable for the merchandise when sold for exportation to the U.S. CBP generally presumes the dutiable value is the price paid by the U.S. importer to its direct supplier.

The FSR principle is a customs valuation strategy that allows importers to declare the value of goods based on the price paid in the earliest sale in a multitiered international supply chain leading to the import transaction. This often applies when a middleman is involved in the invoice flow but not in the product flow. In such cases, the original factory invoice can serve as the customs value, rather than the marked-up invoices in multitiered transactions, potentially reducing the dutiable value and resulting in significant duty savings. Companies with only a single sale can also create a new middleman (typically, a trading company) to insert a new sale into the import flow to take advantage of FSR.

To utilize this rule, clients must support the claim with sufficient documentation, including:

- Evidence that goods are clearly destined for export to the U.S.;
- Proof of a *bona fide* sale, e.g., valid title transfers; and
- Confirmation that all intercompany pricing is arm's length.

Cost Unbundling

Companies can consider conducting a cost unbundling analysis to reduce tariff liability. By evaluating whether certain cost elements associated with imported merchandise can be excluded from the calculation of the final customs value, companies may be able to lower the existing customs value of their goods and, consequently, reduce the duties owed.

Examples of potentially nondutiable cost elements include:

- Certain management services fees;
- Buying commissions;
- Exclusive distribution rights fees; and
- U.S.-based R&D costs.

If these costs or fees are included in the value of the imported merchandise, U.S. importers may be able to deduct them from the final customs value.

Customs Valuation and Transfer Pricing

The interaction between customs valuation and transfer pricing should not be overlooked, as this may have a significant economic impact on companies involved in imports of tangible goods from related parties. The connection is all the more important today because with 50% of all world trade in merchandise taking place between related parties, many U.S. distributors will be paying more in customs duties than income taxes.

Companies that use transfer pricing studies or advance pricing agreements must pay close attention to CBP's arm's length pricing rules, such as the need to document the basis for the declared customs transaction value of imported merchandise and how transfer prices under the IRS rules support the central goal of CBP's rules, i.e., that the parties' relationship did not influence the price of any class or kind of merchandise. Keeping up with volatile trade policies and ensuring that transfer pricing policies and supporting documentation are current and compliant for both customs and tax purposes is demanding but can yield impactful results, including potential customs duty refunds for year-end transfer pricing adjustments.

Other Considerations

Tariff classification is a critical aspect of international trade because it determines the duty rates and regulatory requirements that apply to imported and exported goods. In the current trade environment, it is especially important for companies to review the tariff codes of any merchandise subject to additional trade remedy tariffs such as Section 301 tariffs and confirm their accuracy.

If the codes are correct, businesses should determine whether the merchandise qualifies for any product exemptions from additional duties, which could help avoid additional duties

Compensation and Benefits

Human capital challenges remain at the forefront as private companies look to retain and attract talent and leverage tax rules to efficiently offer competitive equity and benefit programs. This year companies will need to navigate several important new tax considerations. The OBBBA makes significant changes to compensation and benefit rules and imposes new reporting. The challenge will be even greater for companies with a global footprint, as they may need to adjust tax equalization payments to account for the individual tax changes in the new legislation.

New Employer Reporting Requirements on Tips and Overtime

Employers will be required to report qualified tips and qualified overtime compensation to both employees and the IRS beginning in 2025 to facilitate new individual deductions under the OBBBA. The deductions are effective from 2025 through 2028.

Businesses will have to make a number of important determinations to properly report tips, including:

- Identifying employees in occupations that customarily and regularly received tips before December 31, 2024
- Determining whether the tips are earned in a disqualified specified service trade or business
- Verifying that the tips are voluntary

For overtime reporting, employers will report only the additional compensation premium due to the higher overtime rate (the "half" in "time-and-a-half"). This includes only federal Fair Labor Standards Act (FLSA) required overtime premiums (not state/local or contractual overtime). Employees cannot use the same compensation as the basis for a deduction on their Form 1040 for both qualified tips and qualified overtime.

On November 5, 2025, the IRS published Notice 2025-62 which provides penalty relief from the new information reporting requirements for cash tips and qualified overtime compensation under the OBBBA to employers and other payors for not filing correct information returns and not providing correct payee statements to employees and other payees.

Subsequently, on November 21, 2025, the IRS published Notice 2025-69 which clarifies how workers can determine the deduction amount without receiving a separate accounting from their employer for cash tips or qualified overtime on information returns such as Form W-2, Wage and Tax Statement, or a Form 1099.

Planning Considerations

For 2026, the IRS released a draft Form W-2 that adds a new Box 14b for the tipped occupation code, which will be used to report the deduction for qualified tips on Form 1040, Schedule 1-A. Box 14 (Other) has been renumbered as Box 14a on the draft 2026 Form W-2. However, there are no new boxes for qualified overtime or qualified tips. Instead, there are new codes for Box 12 for those items, as well as a new code for contributions to a "Trump account."

OBBBA Enacts Significant Payroll & Benefits Changes

The OBBBA introduced numerous changes that may affect organizations' management of payroll and employee benefits and compliance obligations.

Higher 1099-NEC & 1099-MISC Reporting Threshold for 2026 Onward. For payments made after December 31, 2025, the threshold for providing a Form 1099-NEC (non-employee compensation, which is used for independent contractors) and Form 1099-MISC (used for amounts not reported on 1099-NEC or W-2) increases from $600 to $2,000. Starting in 2027, the $2,000 threshold will be indexed for inflation. This threshold has not changed since 1954.

Employer Tax Credit for Paid Family & Medical Leave (PFML). For tax years beginning after December 31, 2025, the Section 45S employer tax credit for PFML becomes permanent and will include amounts paid for state-mandated paid leave and insurance premiums. The credit broadens the eligibility of part-time employees, clarifies the aggregation rules, and provides flexibility for multistate employers who operate in states where PMFL is not required even if the employer operates in other states that require PFML. These expansions are expected to make the credit more widely available to employers.

Employer Tax Credit for Employer-Provided On-Site Child Care. For tax years beginning after December 31, 2025, the Section 45F employer tax credit for on-site employer-provided child care increases from $150,000 to $500,000 ($600,000 for small businesses), indexed for inflation, up to 40–50% of expenses (increased from 25%). The definition of qualified expenditures will expand to include costs of third-party arrangements and jointly owned or operated child care facilities

Employer Student Loan Debt Payments. The OBBBA made permanent the $5,250 annual amount that employers can pay or reimburse tax-free to employees for student loan debt payments if the employer has a written education assistance plan that complies with Section 127. Starting in 2026, the $5,250 will be indexed for inflation.

Planning Considerations

All employers should update their tracking and reporting for Form 1099-NEC and 1099-MISC, based on the significantly higher threshold for issuing those forms for 2026 and beyond.

Employers may want to revisit their eligibility for the expanded PFML and on-site child care tax credits.

Now that Section 127 permanently allows employers to make tax-free payments of student loan debt for employees, employers may want to look into adopting a written education assistance plan. The IRS recently published a model plan document, making it easier for employers to satisfy the written plan requirement.

IRS Issues Guidance for State Paid Family and Medical Leave Programs

The IRS recently issued its first-ever guidance on the federal income and employment tax treatment of contributions made to, and benefits paid from, a state-run paid family and medical leave (PFML) program, as well as the related reporting requirements. This had become an area of concern for many employers since more than a dozen states have enacted PFML laws without any federal guidance on how to tax the premiums paid to and benefits paid from such programs.

Rev. Rul. 2025-4 provides rules for employers operating in the states (and the District of Columbia) that have mandatory PFML programs and for employees working in those states. These state programs pay employees who can't work because of non-occupational injuries to themselves or family members, as well as sickness and disabilities. While the details of the programs vary substantially from state to state, PFML programs generally operate as social insurance programs, with premium contributions from both employers and employees and benefits paid at a fixed rate, based on the employee's wages.

2025 Transitional Relief

The ruling is effective for PFML benefits paid by a state on or after January 1, 2025. However, it provides transition relief for states and employers for calendar year 2025 from withholding, payment, and information reporting requirements for state PFML benefits. For 2025 only, employers who voluntarily "pick up" the required employee contribution into a state PFML fund are not required to treat those amounts as wages for federal employment tax purposes.

Key Points

The guidance draws important distinctions on how contributions and benefits are treated for federal income and employment tax purposes. Employers will need to pay careful attention to these new rules.

The guidance clarifies the following key points:

- Employers can deduct their contributions to state mandatory PFML programs as a payment of an excise tax.
- Employees can deduct their contributions to such programs as a payment of state income tax, if the employee itemizes deductions, to the extent the employee's deduction for state income taxes does not exceed the state income tax deduction limit. However, required employee contributions to the state PFML program are not excludible from income under Section 106 (i.e., the contributions are after-tax, not pre-tax).
- Employees who receive state-paid family leave payments must include those amounts in the employee's gross income. Generally, the IRS considers benefits that replace wages during an employee's leave as wages for income and employment tax purposes, unless the benefits qualify for an exclusion. Paid family leave is generally not eligible for any exclusion. Employees also do not have a "tax basis" in employee or employer pick-up contributions previously treated as taxable wages.
- Employees who receive state paid medical leave payments must include the amount attributable to the employer's portion of the contributions in the employee's gross income and such amount is subject to both the employer and employee share of Social Security and Medicare taxes. The amount attributable to the employee's portion of the contributions is excluded from the employee's gross income and is not subject to Social Security or Medicare taxes.

Thus, except for leave for the employee's own injury or illness, PFML is not accident or health insurance, so most PFML benefits will be taxable to the employee.

Planning Considerations

Employers should update their payroll systems to come into compliance with the new rules starting with the 2026 calendar year. Such changes often take significant time to implement.

Failure to accurately reflect amounts on an employee's Form W-2 can subject the employer to IRS penalties. The guidance places new administrative burdens on employers (and their payroll systems) to understand the income and employment tax consequences of such state PFML programs, and to coordinate with the states to obtain information that may be required to correctly report taxable benefits (in a manner similar to that which exists for employers that utilize a third-party insurer to administer short-term or long-term disability). Thus, employers will be expected to correctly determine the taxable and nontaxable contributions and benefits for payroll processing and W-2 reporting purposes. Employers should proactively review their payroll practices to achieve compliance.

IRS Instructed to Phase Out Paper Refund Checks

An executive order signed on March 25, 2025, instructs the IRS to discontinue issuing paper checks for tax refunds. After September 30, 2025, a taxpayer who is expecting a tax refund from the IRS will generally receive the refund via direct deposit to a U.S. bank account. This could present a problem for global mobility programs and their cross-border employees.

Because the IRS limits the number of refunds that can be deposited into a single financial account, many global mobility programs are unable to directly receive U.S. tax refunds for their equalized cross-border employees. Consequently, these employees must first receive their tax refunds in their U.S. bank account and subsequently remit the funds to the company.

The absence of paper refund checks creates a challenge for foreign nationals without a U.S. bank account because tax refunds can only be deposited into an account with a routing number linked to a U.S. bank. In addition, those foreign nationals who do have a U.S. bank account will need to maintain their account after departing the U.S. so that any forthcoming tax refunds to be received.

Non-U.S. individuals who do not have a U.S. bank account may now need to rely on other options, such as international wire transfers, credit cards, debit cards, or digital wallets.

Planning Considerations

While additional guidance is expected from the IRS, global mobility programs should proactively prepare for these changes. Preparations may include making changes to the program's current procedures regarding the receipt of tax settlement payments and exploring alternative digital payment options for their cross-border employees.

State and Local Taxes

State and local tax (SALT) issues consistently rank among the top concerns of tax and finance professionals. The 2025 BDO Tax Strategist Survey found that the most prevalent issues in audits and disputes were SALT-related (52%). It's no surprise why. State laws evolve rapidly and vary widely by entity, income, or industry.

This year will only bring more complexity. The OBBBA made significant changes to federal tax law that will have many implications for state tax planning based on conformity decisions. Fortunately, there are plenty of planning strategies, including nexus evaluations and apportionment reviews, to manage state tax issues.

State Conformity Planning Considerations

State considerations will be important for companies implementing the OBBBA changes. The dizzying variety in state conformity regimes can present planning challenges.

States are split roughly 50-50 between conforming to the U.S. Internal Revenue Code on a rolling basis versus a fixed-date basis. Complicating the picture, states in both categories often choose not to conform to specific provisions for policy or revenue reasons.

States with rolling conformity will generally incorporate OBBBA changes by default unless they specifically opt to decouple from particular provisions. States with fixed-date conformity will have to proactively update their conformity dates or rules to implement any OBBBA changes. Fixed-date states are even more likely to make state-specific deviations as part of the process.

Many of the most important provisions in the OBBBA offer multiple implementation options, and the state treatment will be a major factor in planning decisions. Companies should fully assess the state implications of various federal planning strategies.

Key considerations for major provisions include:

- **Section 174 expensing**
- **Section 163(j)**
- **Bonus depreciation**
- **Base erosion and anti-abuse tax**
- **Section 250 deduction**
- **Charitable contributions**

Turning State Tax Complexities into a Plan for Success

SALT laws evolve rapidly and are becoming increasingly convoluted. However, what makes state tax so challenging isn't just the complexity – it's also the inconsistency. Rules vary not just across states but also within the same state based on the type of entity, income, or industry. Navigating the fragmented state tax landscape requires proactive strategies and knowledgeable guidance to manage compliance, reduce tax liabilities, and mitigate risks. That's why companies of all sizes should consider a range of planning strategies.

A holistic review of state tax issues can unlock tax savings opportunities by helping companies identify nexus and filing obligations, uncover potential past exposures, and leverage voluntary disclosure programs to limit penalties and interest. Companies should also analyze apportionment methods and filing practices to correctly perform tax calculations, and to potentially reveal missed deductions, credits, or alternative methods that can reduce state tax liabilities.

It's critical to have robust internal and external resources in the tax function to strategically plan for changes. Quality professional guidance supports business restructurings, expansions, and mergers and acquisitions by improving state tax outcomes and preventing future risks related to combined reporting and intercompany transactions.

Companies should also make sure they have an effective audit defense. This includes preparing documentation, engaging with tax authorities, and leveraging deep knowledge of state statutes and processes to resolve audits efficiently and avoid prolonged disputes and unfavorable outcomes.

Planning Considerations

State taxation cannot be treated as an afterthought because it can affect where a company operates or how it is structured. Without an informed approach, companies risk missing state tax savings, facing unexpected state tax liabilities, and losing control over a growing portion of their tax profiles. Ensuring the tax function has adequate internal and external support can turn those risks into advantages by offering not just compliance but also strategy and foresight.

Harnessing the Power of State Apportionment Rules

Apportioning income across the states where a private company does business is a highly complicated area of SALT, especially given that states continue to change their apportionment rules and the guidance on those rules. It takes a deep tax bench to keep up with the ever-evolving SALT landscape. Understanding apportionment, particularly sales factor sourcing, can help businesses identify tax liabilities and savings opportunities across different states.

While states have shifted from three-factor to single-sales factor formulas, using market-based sourcing for services and intangibles, their methodologies vary. That results in diverse interpretations of where sales are sourced, such as in the context of services which may focus on the location where the service is delivered, where the customer is located, or where the benefit of the service is received. Further, states apply different sourcing rules depending on service type and industry, or how the intangible was used, with cascading rules that require moving through multiple sourcing methods if the location cannot be determined, sometimes requiring reasonable approximations. And despite some state guidance, ambiguities remain, leading to multiple reasonable interpretations of sourcing methods, especially when applying reasonable approximation methods.

Many states also allow requests for alternative apportionment methods if standard methods do not fairly represent activities conducted in the state, but approval depends on following specific procedures and maintaining proper documentation.

Planning Considerations

It is important to examine each company's facts. The nature of a private company's revenue streams and business activities influences which sourcing rules apply, with distinctions such as in-person versus electronic services affecting sourcing outcomes. Detailed apportionment studies help uncover tax exposures and savings by analyzing company facts against varied state rules, preventing overreporting or underreporting across states.

Addressing SALT Exposure Using Effective Transfer Pricing Strategies

State transfer pricing is an often overlooked but critical element of tax planning. While companies frequently focus on federal and international transfer pricing issues, the state implications can be equally material. Ignoring state transfer pricing considerations can expose companies to substantial state tax risk, unexpected state tax liabilities, and missed opportunities for state tax savings.

Every transfer pricing arrangement that affects related-party transactions has potential state tax consequences, whether in cross-border contexts or purely domestic settings. States apply their own rules, often diverging significantly from federal standards, creating substantial complexity. If state impacts are not analyzed, companies can face duplicative adjustments, double taxation, or disallowed deductions.

Integrating state transfer pricing into overall tax planning delivers two key advantages:

- It reduces exposure to audit challenges and penalties, and it can unlock meaningful tax savings by aligning intercompany pricing with state-specific requirements.
- Companies that proactively incorporate state rules into their transfer pricing policies strengthen compliance, lower risk, and improve after-tax results.

Given the differences in state rules — from separate reporting jurisdictions to combined reporting states with unique adjustment powers — thoughtful planning and detailed documentation are essential. By embedding state transfer pricing analyses into benchmarking, implementation, and continual monitoring, taxpayers can better navigate the evolving SALT landscape while safeguarding enterprise value.

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Financial Statements

The tax function is under increasing pressure. Legislative changes and new disclosure rules will make accounting for income taxes more complex and challenging. Plus, it's not enough to be reactive: The tax function also must proactively identify and manage tax risk while incorporating planning considerations into key business decisions. Automation, data management, and analytics can help. It's important to give tax leaders a seat at the decision-making table and to be aware of major changes in the legal, regulatory, and economic landscapes.

OBBBA Implications for Income Tax Accounting

The OBBBA made important tax law changes that will affect U.S. income tax accounting under Accounting Standards Codification (ASC) 740, Income Taxes, including current and deferred taxes, valuation allowances, and financial disclosures. The changes have varied effective dates and will affect corporate tax provisions, international tax rules, energy credits, and state tax considerations.

Key corporate provisions include:

- Restoring 100% bonus depreciation;
- Reinstating expensing for domestic R&E expenditures;
- Modifying the Section 163(j) interest limit;
- Amending the rules for energy credits;
- Expanding Section 162(m) aggregation requirements; and
- Updating the rules for GILTI (now NCTI) and FDII (now FDDEI)

President Trump signed the bill July 4, 2025, which is considered the enactment date under U.S. generally accepted accounting principles (GAAP).

Tax Law Changes

Changes in taxes payable or receivable resulting from the new law are reflected in the annual effective tax rate (AETR) in the period including the enactment date, with discrete recognition of prior-year adjustments. Law changes affecting deferred taxes on temporary differences are also recognized discretely at enactment.

Some companies may be considering an alternative policy to use beginning-of-year temporary differences and related deferred tax balances when evaluating the impact of tax law changes during an interim period. Companies should discuss the approach with their auditors and tax advisors.

Planning Considerations

If a tax law change is retroactive, the accounting treatment depends on whether the impact relates to prior periods or the current year. For prior-period deferred taxes and taxes payable or receivable, the effect is recognized discretely in the period of enactment. However, if the retroactive change affects current-year taxes payable or receivable – when the effective date is before the enactment date but still within the current year – the impact is recognized through an adjustment to the AETR. The updated AETR is then applied to year-to-date ordinary income, resulting in a catch-up adjustment for taxes payable or receivable in earlier interim periods.

Companies should consider that rule when assessing the financial reporting implications of some provisions enacted in July 2025 that are retroactive to the beginning of 2025. That includes provisions such as R&E expensing, Section 163(j) limitation on interest deductions, and 100% bonus depreciation (for property acquired and placed in service after January 19, 2025).

Valuation Allowance

Adjustments to valuation allowances for deferred tax assets (DTAs) existing at enactment are discrete items, while allowances for temporary differences arising after enactment are incorporated into the estimated AETR.

The major corporate provisions discussed above could affect projections of future taxable income, potentially triggering a change in judgment about the realizability of DTAs

Planning Considerations

Before, companies might have recorded a full valuation allowance on their Section 163(j) DTA as a result of the interest deduction limitation being based on 30% of adjusted taxable income, which included amortization, depreciation, and depletion (that is, the earnings before income and taxes limitation). The reinstatement of the earnings before income, taxes, depreciation, and amortization limitation under Section 163(j) for tax years beginning after December 31, 2024, might require a reassessment of the realizability of the current-year disallowed interest deduction and Section 163(j) carryforward DTAs from prior years that were previously subject to a full valuation allowance.

International Taxation

The OBBBA modifies the rules for GILTI (now NCTI) and FDII (now FDDEI) by raising effective tax rates and altering deductions and expense allocations effective for tax years after 2025. It also raises the base erosion and anti-abuse tax (BEAT) rate from 10% to 10.5% for tax years beginning after 2025 and repeals a scheduled 2026 change that would have increased BEAT liability by the sum of all income tax credits.

Because most of the OBBBA international provisions do not take effect until tax years beginning after December 31, 2025, companies will likely see an immediate accounting impact at enactment only if the law change affects their valuation allowance assessments.

Other Changes

The OBBBA curtails Inflation Reduction Act energy tax incentives, imposes new restrictions, and phases out credits.

Companies must assess uncertain tax positions under ASC 740 and analyze state and local tax effects based on conformity with federal tax changes, especially regarding bonus depreciation, R&E expensing, FDII, GILTI, and interest deductibility.

Planning Considerations

Companies need to consider disclosing the expected effects of new tax laws in the notes to the financial statements, management's discussion and analysis, and risk factors.

Tax law changes enacted after interim balance sheet dates but before financial statements are issued are considered nonrecognized subsequent events, requiring disclosure of nature and estimated effects if material. Annual statements must detail tax effects of enacted changes and reconcile the effective tax rate accordingly.

Companies must assess the impact of the tax legislation on their income tax provision calculations, including current and deferred tax balances, the AETR, valuation allowances, and related financial statement disclosures. The provisions are highly interconnected, so the analysis will likely require extensive modeling and planning. Further, it is important to consider how the changes apply to specific facts and circumstances

New Income Tax Disclosures

Private companies should be preparing for new rules meant to increase the transparency and usefulness of income tax disclosures by improving those related to the rate reconciliation and income taxes paid.

Accounting Standards Update (ASU) No. 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures," will be effective for entities other than public business entities (PBEs) for fiscal years beginning after December 15, 2025. Early adoption is allowed.

The new rate reconciliation rules involve standardized categories and greater disaggregation of information based on a quantitative threshold. The income taxes paid disclosures must be disaggregated by jurisdiction. ASU 2023-09 further mandates disaggregation of pretax income or loss and income tax expense or benefit from continuing operations and eliminates some disclosures.

Income Taxes Paid

Information on taxes paid (net of refunds) must be disaggregated for federal, state, and foreign taxes. Further disaggregation is required for specific jurisdictions if the income taxes paid (net of refunds) meet or exceed the quantitative 5% threshold.

The quantitative threshold is calculated by dividing the income taxes paid (net of refunds) in a jurisdiction by the total income taxes paid (net of refunds). In quantifying the 5% threshold for income taxes paid, the numerator of the fraction should be the absolute value of any net income taxes paid or income taxes received for each jurisdiction and the denominator should be the absolute value of total income taxes paid or refunds received for all jurisdictions in the aggregate.

The ASU made no changes to interim disclosure requirements.

Rate Reconciliation

Entities other than PBEs must qualitatively disclose the nature and effect of specific categories of reconciling items and the individual jurisdictions that result in a significant difference between the statutory and effective tax rates. They do not have to present the information in tabular format or provide numerical reconciliations. All reconciling items should be presented on a gross basis.

In the annual rate reconciliation disclosures, entities other than PBEs must include:

1. State and local income taxes in the country of domicile net of related federal income tax effects;
2. Foreign tax effects, including state or local income taxes in foreign jurisdictions;
3. Effects of changes in tax laws or rates enacted in the current period;
4. Effect of cross-border tax laws;
5. Tax credits;
6. Changes in valuation allowances;
7. Nontaxable or nondeductible items; and
8. Changes in unrecognized tax benefits.

See Example 3-2 in BDO's ASU 2023-09 Mini Guide (taken from an example in ASC 740) outlining the differences between reporting for PBEs and non-PBEs.

Income Statement

The ASU made minor changes to the required income statement disclosures relating to income taxes to conform to existing SEC requirements, stipulating that income or loss from continuing operations before income tax expense or benefit be disclosed and disaggregated between domestic and foreign sources.

The update also requires the disclosure of income tax expense or benefit from continuing operations disaggregated by federal, state, and foreign jurisdictions. Income tax expense and taxes paid relating to foreign earnings that are imposed by the entity's country of domicile would be included in tax expense and taxes paid for the country of domicile.

Eliminated Disclosures for PBEs and Non-PBEs

Entities no longer are required to disclose information concerning unrecognized tax benefits that have a reasonable possibility of significantly changing in the 12 months following the reporting date, nor must they make a statement that an estimate of the range cannot be made.

ASU 2023-09 also removed the requirement to disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures. Entities still must disclose the types of temporary differences for which deferred tax liabilities have not been recognized under ASC 740-30-50-2(a), (c), and (d).

Using Year-End Lessons to Improve Process

Effective management of the year-end close process is crucial for companies to adapt to changing financial numbers, regulatory environments, and business transformations. Improving the process enhances the tax function's strategic role and supports accurate, timely financial reporting. Starting it months in advance helps address resource constraints and regulatory complexities, enabling more efficient and accurate closings.

Companies benefit from understanding tax- and accounting-related risks, which prepares them for growth and regulatory changes. To build trust with leadership, tax departments should implement comprehensive reporting that explains key performance indicators (KPIs) and any differences between forecasted and actual results from both GAAP and non-GAAP perspectives.

A flight plan, or a detailed checklist covering calculation methodologies, documentation, and key milestones, can help tax teams manage adjustments (especially late changes) and supports audit readiness. If some adjustments cannot be automated, it is crucial to document estimation methodologies and involve the audit function to achieve accuracy and compliance.

Post-close discussions with C-suite executives about KPI variances and internal reviews of the close process foster transparency and identify areas for enhancement.

Integrating tax provision software and other technologies reduces reliance on spreadsheets, improves accuracy, accelerates calculations, and lowers risk. All that positions the tax function for future challenges.

How Mature Are Your Operations?

Tax function maturity significantly affects risk management. Mature tax functions possess effective processes and technology and are involved in key business decisions, thereby helping reduce operational tax risks. Less mature functions are susceptible to unanticipated tax issues.

Strategic tax goals enhance any overall company impact, making it imperative for tax leaders to have a seat at the decision-making table. Including them in C-suite agendas helps proactively manage tax implications across an array of business lines and initiatives. That in turn drives sustainable value.

Companies must also consider adequate resourcing and strive to build tax teams with the right personnel, processes, and technology. Compliance and reporting benefit from a deep tax bench, and mature tax departments leverage advanced technology for automation, data management, and analytics to improve accuracy and mitigate potential tax risks. Further, tax leaders must develop strategies to improve transparency and align sustainability and tax goals.

The bottom line? Proactivity reduces risk. Tax strategists are proactive in anticipating and mitigating tax risks. Less mature tax tacticians tend to be reactive, which makes their companies more vulnerable to risks and underscores the need for ongoing maturity improvement.

Key Considerations in Addressing Tax Risk

Rapid changes in regulatory requirements, technology, and growth patterns have made tax risk management critical. Despite an increased business and regulatory focus on tax, many organizations have yet to adopt comprehensive tax risk mitigation strategies or fully leverage tax technology. Effective management involves upgrading technology, ensuring the internal tax team is focused on strategy (with possible outsourcing of more routine tasks), and conducting global tax risk reviews with cross-functional collaboration.

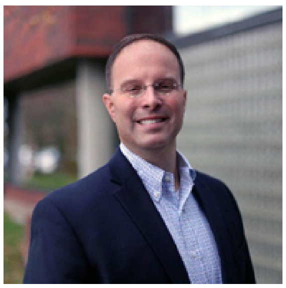
Common contributors to heightened risk include:

- Noncompliance, or an inability to keep up, with new laws;
- Organizational changes such as market expansion or mergers;
- Under-resourced tax teams;
- A lack of automation; and
- Failure to seek external advisory services.

To mitigate potential financial, legal, and reputational consequences, tax leaders should consider conducting global tax risk reviews to better understand and manage risk by identifying strengths and weaknesses. Those reviews should involve members from cross-functional teams to anticipate scenarios that could lead to tax risk. Prioritizing those risks and planning mitigation strategies may include implementing tax internal controls, maintaining process documentation, developing contingency plans, and ensuring tax leaders have a seat at the table during business decision-making processes.

Proactive tax planning and seamless tax compliance are essential components of financial success. At FustCharles, we are dedicated to providing year-round support, ensuring you stay informed about emerging opportunities, evolving tax laws, and optimal strategies. Our commitment is to guide you towards the most advantageous course of action aligned with your objectives, ultimately contributing to your business's financial well-being.

For more information, please reach out to our Tax Team Leaders:



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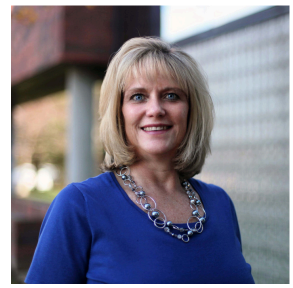

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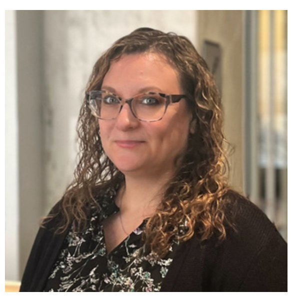

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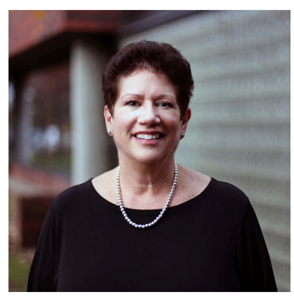

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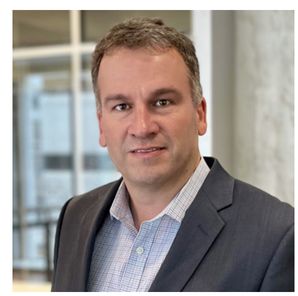

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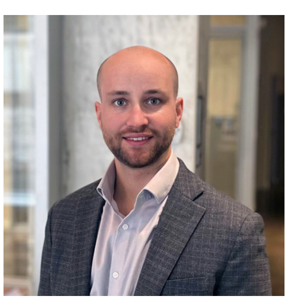

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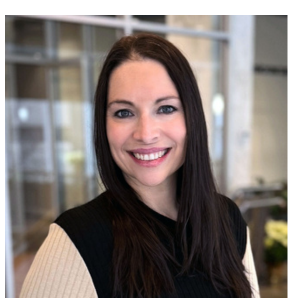

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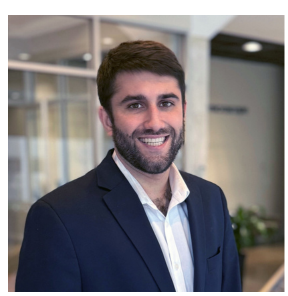

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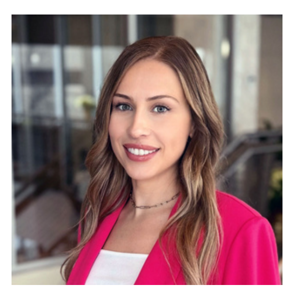

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