2025 Tax Legislation Update and Year-end Planning Strategies for Your Firm

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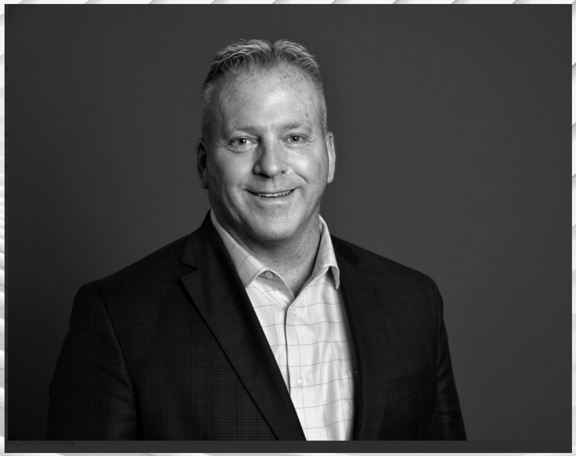

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A&E Practice Overview

- Top 25 U.S. firm serving the Architecture & Engineering (A&E) industry
  - Dedicated team of financial, tax, and business advisory professionals
  - Comprehensive expertise across assurance, tax strategy, and business consulting
- Tailored A&E Industry advisory services:
  - M&A advisory - Approximately 250 transactions in the A&E space
  - Ownership transition advisory services
  - Tax strategies and structuring
  - Cyber / IT risk services
  - Benchmarking
  - Project management improvement
- Thought leadership for A&E industry
  - Annual A&E Industry Summit – Next event in Boston June 2026
  - Architectural Study and Engineering Study – See booth and links
  - Industry-focused educational programs

Course Description & Learning Objectives

- **Course Description:**
  - During this session we will be discussing new legislation that will impact your firm's current and future tax strategies. Expected items to cover include the new tax law changes and tax planning strategies.
- **At the end of the course, participants will be able to:**
  - Identify and Discuss Key 2025 Tax Legislation Updates
  - Understand Section 174 Rules on Research and Experimental (R&E)
  - Incorporate Key Corporate and Individual Tax Provisions into Planning
  - Develop Comprehensive Tax Planning Strategies

Agenda

- Tax Legislation Update
  - The One Big Beautiful Bill Act (“OBBBA”)
    - Research and Experimental Expenditures (Section 174)
    - Research and Development Tax Credits
    - Section 179D (Energy Efficient Commercial Buildings Deduction)
    - Extended Tax Provisions Previously Set to Expire
    - Other Legislation Changes
- Tax Planning Strategies

Research and Experimental Expenditures (Section 174)

Research and Experimental Expenditures (Section 174)

- Legislation update
- Example illustrations
- Planning for utilization of R&D expense amortization

Legislation Update – Section 174

- Taxpayers can deduct domestic R&D expenses beginning after December 31, 2024.
  - Similar to rules in effect prior to 2022
  - This is now "permanent"
- All taxpayers that incurred domestic R&D expenditures after December 31, 2021, and before January 1, 2025, will be permitted to deduct any remaining unamortized domestic R&D expenditures
  - Small business taxpayer options
  - VS
  - Non-small business taxpayer options

Legislation Update – Section 174

- Small business taxpayers
  - Small business taxpayers are taxpayers that have average annual gross receipts of $31 million or less over the three years prior to the first taxable year beginning after December 31, 2024.
    - For 2025 tax year, look to average annual gross receipts for 2022 through 2024.

Legislation Update – Section 174

- Small business taxpayers
  - Options:
    - Retroactive Relief (via amended returns);
    - 100% in 2025 via an election;
    - 50% in 2025 and 50% in 2026 via an election; or
    - Ratably over the remaining life of the asset (not via an election) - this would take deductions into the 2029 tax year.

Legislation Update – Section 174

- For small business taxpayers choosing to amend prior year returns:
  - Small business taxpayers have one year or sooner from the date the OBBBA was enacted to elect to retroactively deduct these costs on an amended return.
  - For 2022 tax returns, must meet July 6, 2026 deadline or sooner due to statute of limitation issues (Could be March 15, 2026 if you filed on time).
  - All years in which R&D expenses were capitalized must be amended. For most this would mean amending three years of tax returns.
  - Compliance cost associated with preparing amended returns.
  - Interest ? Need better guidance
  - Must also now take the reduced R&D credit (79% of original credit).
  - Other considerations; reduced passthrough entity tax, 179 implications
  - Typically see the IRS processing amended returns in 12-18 months.

Legislation Update – Section 174

- Non-small business taxpayers
  - Not eligible for retroactive relief (cannot go back and amend).
  - These taxpayers would either deduct the remaining unamortized balance:
    - 100% in 2025 via an election;
    - 50% in 2025 and 50% in 2026 via an election; or
    - Ratably over the remaining life of the asset (not via an election) - this would take deductions into the 2029 tax year.

Section 174 – Example Illustration

- Example – S Corporation

OBBBA - IRC 174 Amortization Options	2022	2023	2024	Totals		
IRC Section 174 Capitalized Costs	2,000,000	2,200,000	2,420,000	6,620,000		
Amortization Through 12/31/24	(1,000,000)	(660,000)	(242,000)	(1,902,000)		
Net Tax Value 1/1/25	1,000,000	1,540,000	2,178,000	4,718,000		
Unamortized IRC 174 costs at 1/1/25				**4,718,000**	-	

Deductions	2025	2026	2027	2028	2029	Total
One Year Election Deduction	4,718,000					4,718,000
Two Year Election Deduction	2,359,000	2,359,000				4,718,000
Amortize over Remaining Life	1,324,000	1,324,000	1,124,000	704,000	242,000	4,718,000

Federal Tax Savings (S Corp - using QBI rate of 29.6%)	2025	2026	2027	2028	2029	2030
One Year Election	1,396,528					1,396,528
Two Year Election	698,264	698,264				1,396,528
Amortize over Remaining Life	391,904	391,904	332,704	208,384	71,632	1,396,528

Section 174 – Example Illustration

- Example – C Corporation

OBBBA - IRC 174 Amortization Options						
	2022	2023	2024	Totals		
IRC Section 174 Capitalized Costs	2,000,000	2,200,000	2,420,000	6,620,000		
Amortization Through 12/31/24	(1,000,000)	(660,000)	(242,000)	(1,902,000)		
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Federal Tax Savings (C Corp - 21%)	2025	2026	2027	2028	2029	2030
One Year Election	990,780					990,780
Two Year Election	495,390	495,390				990,780
Amortize over Remaining Life	278,040	278,040	236,040	147,840	50,820	990,780

Section 174 – Planning for Utilization of Amortization

- Considerations:
  - Managing taxable income 2025 and forward
    - Net operating loss limitations for C-Corporations
  - Working capital
  - Shareholder Basis
  - Previous and YTD tax distributions
  - State conformity issues / PTET
  - Bank Covenants
  - Valuation impacts
  - Succession planning impacts
  - M&A considerations (next slides)

Section 174 – Planning for Utilization of Amortization

- M&A considerations:
  - 2022 through 2024 recap:
    - Asset Sale – Seller retained capitalized expense balance.
    - Stock Sale – Buyer "stepped into the shoes" of the seller and continued to amortize.
  - Post 2024 - Buyers
    - Buyers need to understand what the Seller did with their R&D expenses.
      - Did they amend prior year returns?
      - If not, what is the structure of the deal and who will receive the benefit?

Section 174 – Planning for Utilization of Amortization

- M&A considerations (Continued) :

  Seller Considerations:
  - How best to utilized deduction ?
    - Amend?
    - How does deal structure impact decisions
    - Reduce tax on sale?
    - Cash to accrual
    - Need full tax planning exercise

  - Stock Sale – all attributes, including unamortized R&E balance, go to the buyer. What is value of the benefit?

Research and Development Tax Credits

Strategies around utilization of tax credits:

- R&D credit rules revert to similar rules prior to 2022
- Decrease net effective tax rate
- Current return of tax savings
- Reduce deferred tax liability / Improving working capital
- Shelter tax on repayment of debt
- Improve affordability of internal transition plan buyouts
- Carryover for future event

Section 179D – Energy Efficient Tax Deduction

Overview

- Tax deduction available to designers of energy efficient buildings owned by federal, state or local governments or not-for profit organizations
- Below design components may qualify if certain ASHRAE standards are met:
  - Interior lighting (exterior lights do not qualify)
  - HVAC system
  - Building envelope (cladding, windows, roofing, etc.)
- Formal signoff still required from client
- Study required to certify energy efficiency achieved.
- Deduction available in the year certificate of occupancy obtained
- Up to a maximum of $5.81 / psf
- OBBBA - Deduction sunsets for property with construction beginning after June 30, 2026

Extended Tax Provisions Previously Set to Expire

Business Provisions:

- Qualified Business Income Deduction
- Bonus Depreciation

Individual Provisions:

- State and Local Tax Deduction
- Tax Brackets
- Standard Deduction
- Estate and Gift Taxes

Qualified Business Income

- Qualified Business Income (“QBI” or IRC 199A)
  - 20% deduction is now “permanent.” Was going to expire after 2025.
  - Top level rate for qualifying businesses is still 29.6% (= 37% * 80%).
  - Applies to business income (K-1 line 1 income). Deduction however is taken on your individual tax return.
  - Phase-out beginning in 2026 – However does not apply to A&E Industry

Bonus Depreciation

- 100% bonus depreciation for property placed in service after January 19, 2025.
- 100% bonus depreciation is "permanent." It was not previously permanent, but subject to a decreasing % each year under the TCJA.
- Property acquired between January 1, 2025, and January 19, 2025, is still eligible for 40% bonus depreciation (which was the bonus depreciation % for 2025 prior to the OBBBA).
- Taxpayers can still elect 40% bonus depreciation for the first taxable year after January 19, 2025.
- Unlike IRC 179, most states do not follow federal bonus depreciation.

State and Local Tax Deduction

- Pre-OBBBA – federal deduction limited to $10,000
- The OBBBA extends the SALT cap, but increases it to $40,000 for 2025.
- The cap will increase 1% annually through 2029. In 2030, it reverts to $10,000.
- Deduction is reduced by 30% of income that exceeds $500,000 ($250,000 if single, and inflation adjusted for future years) but not below $10,000 cap deduction.
- Federally, pass through entity taxes (PTET) remain unchanged. Taxpayers who own pass through businesses may claim both (higher SALT cap and deduction taken at entity level).

Tax Rates

- OBBBA made the 2017 brackets “permanent” and added inflation adjustments for the 10%; 12%; and 22% brackets.
- Prior brackets were going to expire on December 31, 2025, and the top rate of 37% was going to increase to 39% for 2026.

2025 Federal Income Tax Brackets			
Rate	Single	Married Filing Jointly	Head of Household
10%	Up to $11,925	Up to $23,850	Up to $17,000
12%	$11,926 – $48,475	$23,851 – $96,950	$17,001 – $64,850
22%	$48,476 – $103,350	$96,951 – $206,700	$64,851 – $103,350
24%	$103,351 – $197,300	$206,701 – $394,600	$103,351 – $197,300
32%	$197,301 – $250,525	$394,601 – $501,050	$197,301 – $250,525
35%	$250,526 – $626,350	$501,051 – $751,600	$250,526 – $626,350
37%	Over $626,350	Over $751,600	Over $626,350

Standard Deduction

- Increased standard deduction is now “permanent” will be adjusted for inflation effective for tax years after December 31, 2024.
- Pre-OBBBA was slated to go back to 2017 levels as of 1/1/26.
- In recent years, ~ 90% of individual filers claimed the standard deduction.
- Amount:
  – Single - $15,750 (2024 - $14,600)
  – Head of household - $23,625 (2024 - $21,900)
  – MFJ - $31,500 (2024 - $29,200)

Estate and Gift Tax

- OBBBA increases the current Federal exemption from ~ $13.99 million per person ($27.98 million for married couples) in 2025, to $15 million per person ($30 million per married couple) starting January 1, 2026.
- Pre-OBBBA, the 2026 amount would have been about half of the OBBBA 2026 amount.
- Going forward amounts are indexed for inflation.
- Provision is "Permanent"
- Still need to consider Federal vs state exemption amounts.
  - Massachusetts – if taxable estate is less than $2 million then there is no Massachusetts estate tax.
  - Florida – Does not have an estate tax

Other Legislation Changes

- Depreciation - Section 179
- Charitable Deductions

Depreciation – Section 179

- IRC 179 deduction increased to $2,500,000 with an increased phase-out of $4,000,000.
- Above $4,000,000 of fixed asset additions, the deduction is reduced dollar for dollar, and is fully phased out once additions reach $6,500,000.
- Effective for tax years after December 31, 2024.
- Prior to OBBBA, maximum deduction was $1,000,000 for 2025.
- States generally follow IRC 179.

Charitable Contributions

- Pre-OBBBA – limited total charitable contribution deduction for C Corporations to 10% of taxable income, with no floor. Excess amounts were carried forward.
- The OBBBA changes this for taxable years beginning after December 31, 2025.
  - C Corporations
    - Limits total charitable contribution deduction for C Corporations to a floor of 1%, and a maximum of 10% of taxable income. Excess amounts are carried forward.
  - S Corporations and Partnerships
    - Charitable contributions flow through to Shareholders & Partners via K-1 (which has always been the case), where there is a new 0.5% floor at the individual level (for those that itemize). Also applies to taxable years beginning after December 31, 2025.
    - If your AGI is $200,000, only donations above $1,000 are deductible.
    - Top bracket (37%) taxpayers subject to 35% tax rate cap.
      - Ex: A donation of $10,000 will yield a $3,500 tax reduction instead of $3,700.

Tax Planning Strategies

TAX PLANNING PROCESS

Top 2025 planning considerations

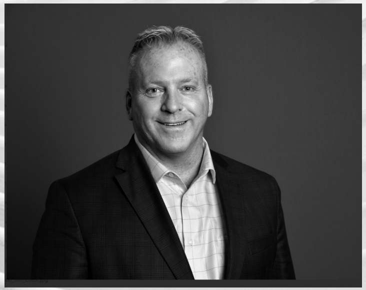
1. Taxable income targets – cash versus accrual
2. Bonuses
3. Retirement plan contributions
4. Depreciation; Section 179/Bonus (new tax law provisions)
5. Passthrough Entity Taxes
6. Energy efficiency tax deduction – 179D
7. R&D considerations
8. Financial statement, FAR impact, and working capital targets
9. Transition / exit strategy impacts
10. Estate planning considerations

Discussion and Questions

PKF O'Connor Davies
ACCOUNTANTS AND ADVISORS

PKF O'Connor Davies has a variety of resources available to A&E firms.

We will be at the conference through Friday and look forward to talking with you here or when you return to your office.



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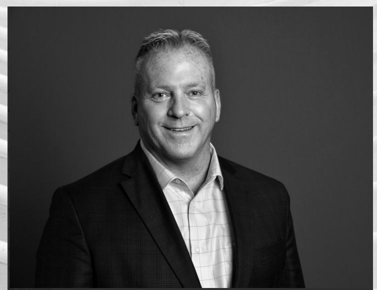

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