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INSIGHT

One Big Beautiful TRC: Impact and Challenges of the OBBBA

In this issue we explore the OBBBA and several other topics. Our experts cover some of the major provisions of the OBBBA and the impact in their service areas. Additionally, we explore the tax benefits of Puerto Rico, and the complexity of Drop Shipments.

Jump into the minds of our TRC experts to see what they are watching in this evolving space, and remember to look for links within the articles for any topics you wish to explore further.

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Highlights from the One Big Beautiful Bill Act

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On July 4, 2025, President Trump signed into law the One Big Beautiful Bill Act, a sweeping, 870-page reconciliation package that extends and revamps major elements of the 2017 Tax Cuts & Jobs Act (TCJA) while introducing new tax. Some major provisions include:

Individual Tax Provisions

- Permanent extension of TCJA rates: Expanded income tax brackets and the 37% top rate remain in place beyond 2025 and are no longer set to sunset.
- Expanded Standard Deduction & Child Tax Credit: Standard deduction stays elevated; the child tax credit increases to $2,200 per child with inflation adjustments.
- Boosted SALT Cap: The state and local tax deduction cap rises from $10,000 to $40,000 for 2025 and grows 1% annually through 2030; it phases out entirely for MFJ taxpayers with MAGI over $600,000.
- No-Tax on Tips & Overtime Deductions: From 2025 through 2028, workers in qualifying tipped roles may deduct up to $25,000 in cash tips, phased out for higher-income earners; qualified overtime pay is also deductible up to $12,500 for singles and $25,000 for couples.
- Increased Maximum Lifetime Exclusion: The maximum gift and estate lifetime exclusion amount is increased to $15 million per person after 2025, and inflation is adjusted. The increased amount is not scheduled to sunset.

Business & Pass-Through Tax Provisions

- Permanent pass-through deduction (Section 199A): The 20% deduction for eligible business income is made permanent (though the cap remained at 20% rather than the 23% in the House bill).
- R&D, Business Interest & Bonus Depreciation: Full expensing for R&D costs, reduced limitation on the deductibility of business interest, and 100% first-year bonus depreciation are reinstated and made permanent.
- Real Property in Production: Adds a 100% first-year depreciation deduction for certain real property used in a qualified production activity.

The provisions outlined above represent only a portion of what's included in the sweeping OBBBA legislation (check out our OBBBA resource center for more information). Many more rules, thresholds, and transitional considerations apply, and with them, a wave of forthcoming regulatory guidance.

QOZ Permanence Renews Interest Amid Unsettled Decertification Rules

MICHAEL J. KOONTZ ,
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With an intense tax policy season behind us, we now have final tax legislation in place through the One Big Beautiful Bill Act.

> *The OBBBA includes an expansion of the Qualified Opportunity Zone program and makes the QOZ provisions permanent.*

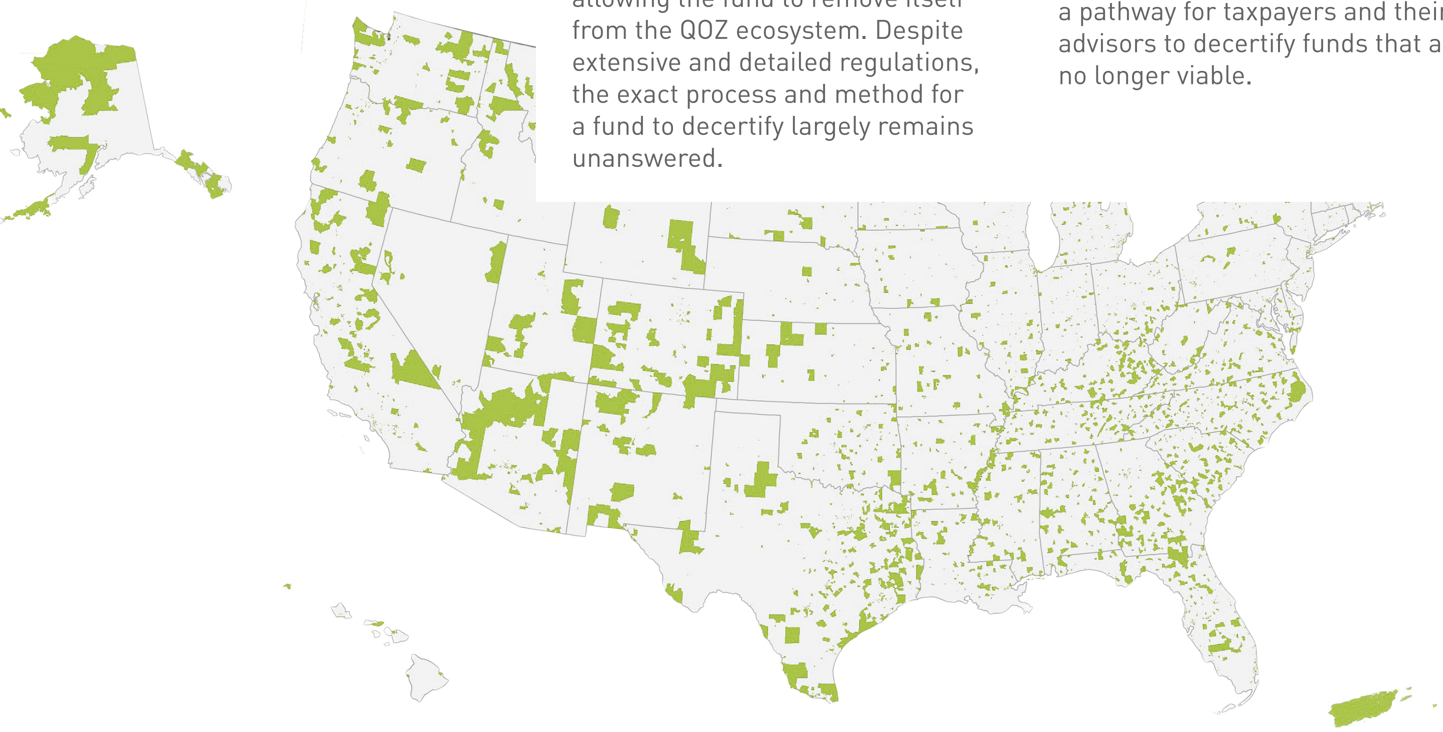
With an expansion to the program, it can be expected that there will be renewed interest in investing in Qualified Opportunity Zones, and with that, new Qualified Opportunity Funds created.

Once a Qualified Opportunity Fund is formed and has completed its self-certification on Form 8996, certain testing requirements must be met throughout the entity's existence to remain in good standing, and to avoid penalties. Like many businesses and projects, these funds are not always successful, and results may not align with initial expectations. Because of this, a fund may eventually need to file a decertification election, allowing the fund to remove itself from the QOZ ecosystem. Despite extensive and detailed regulations, the exact process and method for a fund to decertify largely remains unanswered.

The regulations under Reg. Sec. 1.1400Z2(d)-1, provide that a QOF can decertify its QOF status in the form and manner prescribed by the IRS in forms or instructions. To date, formal instructions unfortunately have not been issued, and without the ability to decertify, QOFs would be subject to penalties for the entirety of their existence, creating numerous issues for the funds and their investors.

In November of 2021, draft Instructions for Form 8996 were released, which created a process to make the decertification election. The draft form provided Line 6 to make the decertification election, along with a requirement to include a statement with additional information regarding the decertification. Unfortunately, the subsequent forms and instructions for Form 8996 removed the decertification commentary, and Line 6 of Form 8996 remains reserved for future use.

With renewed interest in the Qualified Opportunity Zone Program after expansion within the OBBBA, we can hope that updated guidance and regulations will include a formal process for decertification, providing a pathway for taxpayers and their advisors to decertify funds that are no longer viable.



Puerto Rico: The Land of ...Tax Benefits?

Puerto Rico is known as the Island of Enchantment and attracts many Americans each year for both business and pleasure. However, recent trends have shown more and more US citizens flocking to the island for another reason – income tax breaks.

Generally, US persons are taxed on the income they earn worldwide, regardless of their place of domicile. As a result of high US taxes and worldwide taxation, many high-income US taxpayers consider expatriating from the US. Puerto Rico offers a persuasive alternative to costly expatriation without having to give up citizenship. Puerto Rico Act 60-2019 (the "Incentives Act") was signed into law on July 1, 2019.

Chapter 2 of the Incentives Act aims to attract US individuals to establish Puerto Rican residency with a possible 100-percent tax exemption from Puerto Rican income taxes on all dividends and interest. A "resident individual" would also receive Puerto Rico income tax exemptions on capital gains stemming from the sale or exchange of securities that appreciated in value after the individual established domicile in Puerto Rico. This investment income may not be taxed in the US.

Chapter 3 of the Incentives Act is meant to act as a path to develop Puerto Rico as an international export service and commerce center by allowing certain export businesses established in Puerto Rico a 4-percent corporate tax rate. In addition, distributions from earnings and profits to the owners are not subject to Puerto Rican income tax. As long as both the export entity and owners are Puerto Rico domiciled, there is no taxation on this income in the US.

Moving to Puerto Rico may not exempt US citizens from filing and paying US income taxes on all income. Any income earned in the US is still subject to US taxation. In addition, the move may be beneficial but also difficult. With recent hurricanes, earthquakes and a US equivalent housing shortage, the move may not be as simple as just packing your bags and going.

To find out more about the benefits that may be available in Puerto Rico, see the full article here.

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Unlocking Value After the "Big Beautiful Bill": Immediate Client Planning Strategies for CPA Firms

The passage of the federal tax legislation informally called the "Big Beautiful Bill" on July 4, 2025, unlocks a range of high-impact planning opportunities that CPA firms need to tackle right now. Tax advisors who act swiftly can help clients maximize benefits on depreciation, R&D deductions, and state-level considerations—all while managing new compliance complexities.

At the heart of these changes:

100% Bonus Depreciation has been made permanent—providing stability for capital investment planning. But eligibility now depends on whether contracts were entered into before or after January 20, 2025. Firms should review key dates on multi-year and self-constructed projects to ensure correct treatment.

Section 179 Expensing limits have increased to $2.5 million (phasing out at $4 million), with eligibility based solely on placed-in-service dates after December 31, 2024. Since many states conform to this but not bonus depreciation, firms may choose a Section 179 election to align federal and state treatment.

Section 174 Expensing (R&D) can now be deducted immediately beginning in tax years starting after December 31, 2024. Large taxpayers may also elect to deduct unamortized costs from 2022–2024 in full in 2025 or spread them over 2025–2026 via a Form 3115 Section 481(a) adjustment. Small taxpayers (average gross receipts under $31 million) have the additional option of amending 2022–2024 returns to retroactively expense R&D costs—a decision that could yield refunds, but demands expedited planning and attention to audit, loss limitation or financial accounting rules. Firms should also revisit clients who previously opted out of the Section 41 R&D credit, given the new certainty around Section 174. Strategic consideration of amending claims or filing protective accounting method changes is now warranted.

What CPA Firms Should Do Next:

- Segment clients into "small" vs. "large" taxpayer categories.
- Review contracts and placed-in-service timing for bonus/179 planning.
- Model the impact of Section 174 and R&D credit scenarios.
- Prepare necessary Form 3115 elections and consider amending past returns.
- Coordinate recommendations with clients' cash flow, loss usage, and estimated payment profiles.

Don't let this window close: the clock starts based on elections tied to enactment (July 4, 2025). CPA firms that move now can help clients reduce tax liabilities, enhance refunds, and steer with confidence through uncertain guidance from the IRS.

Read the full article by Jerry Hammel, CPA, for comprehensive technical guidance and example scenarios.

R&D Capitalization Under the OBBBA: Welcome Relief, Questions Remain

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The One Big Beautiful Bill Act ("OBBBA") was signed into law on July 4th and is largely an extension of the Tax Cuts and Jobs Act of 2017, with a few new provisions added. The bill includes welcome changes to Section 174 and its highly-scrutinized provisions enacted as part of the TCJA that required companies to capitalize and amortize their research and development costs, including costs incurred for software development.

The Section 174 rules were originally included in the TCJA as a revenue generator, with many expecting corrective legislation to pass before the provisions took effect in 2022. Despite bipartisan support and the introduction of several correction bills, none ultimately became law.

Fortunately, the OBBBA repeals the R&D capitalization provisions, allowing companies to immediately expense domestic research costs for tax periods beginning after December 31, 2024, while foreign research must still be capitalized and amortized over 15 years. Small taxpayers meeting the Sec. 448(c) gross receipts test for their first tax period beginning after December 31, 2024, are permitted to amend returns to retroactively deduct expenses for 2022-2024 that were originally capitalized. All taxpayers may accelerate the deduction of their remaining capitalized costs over one or two years in 2025 or 2025 and 2026.

However, numerous questions remain and will require further guidance. The current language suggests that amended returns are necessary to claim retroactive deductions, but it is unclear whether taxpayers on extension for 2024 can expense R&D costs without filing an amend return.

Another unresolved issue is how states will address the retroactive provisions, particularly those that do not have rolling conformity with federal law.

> *"This mismatch between the federal and state rules adds yet another layer of complexity when analyzing whether small taxpayers should amend prior returns or instead claim the expenses in 2025 or 2025 and 2026."*

Taxpayers in the software development and tech industries will no doubt welcome the changes to Section 174. However, with the deadline to amend small taxpayer returns set for July 4, 2026, updated guidance will be essential for both taxpayers and their advisors to navigate the new legislation.

Drop Shipments and Sales Tax: What CPAs Need to Know for Client Compliance

Drop shipment transactions often appear simple on the surface but can create real complexity when it comes to sales tax compliance. As a CPA advising clients that sell tangible goods across state lines, it is important to understand how sales tax responsibilities are determined when drop shipments are involved.

These transactions typically involve three parties: a distributor, a retailer, and a customer. The distributor ships goods directly to the customer on behalf of the retailer. The challenge begins when not all parties share the same sales tax nexus footprint. This disconnect can cause unintended tax exposure for your clients, especially when resale exemption certificates are involved.

For example, if a distributor has nexus in the customer's state but the retailer does not, the distributor may be required to collect sales tax unless the retailer provides a valid resale certificate for that state. The catch is that not all states accept out-of-state resale certificates. Some, like Georgia, are flexible. Others, such as California and Illinois, require the retailer to be registered in-state in order to issue a valid certificate.

With more states enforcing economic nexus rules since the Wayfair decision, retailers and distributors without a physical footprint are now required to register and collect tax in more jurisdictions. This trend affects more of your clients than ever before.

If your firm supports clients that rely on third-party suppliers, marketplaces, or distributors, especially those shipping into multiple states, now is the time to evaluate whether they are correctly managing their sales tax responsibility. Missed obligations or invalid exemption certificates can lead to double taxation, profit margin loss, or audit risk.

Looking for a practical breakdown to help guide your clients through this? Read more in our white paper on Drop Shipments or get in touch with the TRC and TaxConnex.

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For all inquiries, please contact Faiz Jaffar. For Technical Resource Center services please visit the TRC at agn.org/member-benefits/

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