TaxBrief
Keeping you informed

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Major Business Tax Changes

The *One Big Beautiful Bill Act* (OBBBA) brings sweeping changes to business taxation. Here's what you need to know about the most important provisions affecting your business.

Permanent qualified business income (QBI) deduction

Prior law: The 20% QBI deduction for pass-through businesses (sole proprietors, partnerships, S corporations, some trusts and estates) was set to expire after 2025.

New law: The 20% QBI deduction is now permanent. Starting in 2026, there is also a new minimum deduction of $400 for active business income if your total active QBI is at least $1,000. The phase-in threshold for wage and property limitations is increased to $75,000 ($150,000 for joint filers), indexed for inflation. This means more business owners can benefit from the deduction, and even small businesses with modest profits will get a minimum deduction.

Example: Sam has a workshop and earns $2,000 in QBI. Under this new law, she automatically gets a $400 deduction, even if her profits are small.

What does it mean? This change provides greater certainty and simplifies long-term tax planning. Business owners can now count on the 20% QBI deduction beyond 2025.

Permanent 100% bonus depreciation (including qualified production property)

Prior law: 100% bonus depreciation for qualified property was phasing out, dropping to 0% after 2026.

New law: 100% bonus depreciation is now permanent for qualified business property placed into service after Jan. 19, 2025. This includes a new provision for 100% expensing of certain nonresidential real property used in qualified production activities (manufacturing, refining, etc.), with special recapture rules. Businesses can immediately deduct the full cost of eligible property, improving cash flow and simplifying planning.

Example: Cooper Company, a manufacturer, purchased and placed in service a new machine (five-year MACRS property) on Feb. 1, 2025, for $500,000. The machine was used 100% for business. **Under the new law**, because the machine was acquired and placed in service after Jan. 19, 2025 the business can claim 100% bonus depreciation on the full $500,000 in 2025.

This means the entire $500,000 is deducted as depreciation in 2025, rather than being depreciated over the machine's five-year life.

What does this mean? More businesses can take advantage of full write-offs for large investments, including manufacturing-related property.

Increased Section 179 expensing limits

Prior law: The §179 expensing limit was $1 million, with a phaseout starting at $2.5 million.

New law: The §179 limit increases to $2.5 million, with the phaseout starting at $4 million. Both amounts are indexed for inflation. This allows businesses to expense more of their equipment and property purchases up front, rather than depreciating them over several years.

Example 1: In 2025, Chase Corp. purchased and placed in service $2 million of qualifying equipment.

- $2 million is less than the $4 million threshold; therefore, Chase Corp. can elect to expense the full $2 million under §179 (subject to the business income limitation).

Example 2: In 2025, Chase Corp. purchased and placed in service $4.5 million of qualifying equipment. $4.5 million exceeds the $4 million phase-down threshold by $500,000.

The maximum §179 deduction is reduced dollar-for-dollar by the excess:

- $2.5 million (maximum deduction)
- Minus $500,000 (excess over $4 million)
- Allowed §179 deduction: $2 million

What does this mean? Bigger purchases can be written off faster, especially for small to mid-sized businesses.

New rules for qualified small business stock (QSBS)

Prior law: There was a 100% exclusion for gain on QSBS held more than five years, with a $10 million per-issuer limit and $50 million gross asset test.

New law: For new stock, the exclusion is phased in at 50% at three years, 75% at four years and 100% at five years. The per-issuer limit increases to $15 million, and the gross asset test increases to $75 million, both indexed for inflation. This makes the QSBS exclusion more accessible and valuable for growing businesses and investors.

Example: Ethan is an investor who acquires stock in a domestic C corporation on Aug. 1, 2025. The corporation is a qualified small business C corporation, and its gross assets have never exceeded $75 million (the new limit). The corporation is engaged in a qualified trade or business (not a service, financial organization or other excluded business). Ethan acquires the stock at original issuance, directly from the company, in exchange for cash.

Ethan invests $1 million and receives 100,000 shares. He holds the stock for five years and sells all his shares on Aug. 2, 2030, for $20 million. During his holding period, the company continued to meet all QSBS requirements.

The exclusion will be as follows: Ethan's gain is $19 million ($20 million sale price minus $1 million). Because Ethan held the stock for at least five years, he is eligible for a 100% exclusion of gain on the sale of QSBS acquired after July 4, 2025.

The maximum amount of gain Ethan can exclude is the greater of:

- $15 million (the new per-issuer limit, up from $10 million) or
- 10 times his basis in the stock (10 x $1 million = $10 million)

Ethan can exclude $15 million of his $19 million gain from federal income tax. The remaining $4 million of gain ($19 million total gain minus $15 million exclusion) is subject to capital gain tax.

If Ethan sold the stock after only three years, he would be eligible to exclude 50% of the gain; after four years, 75% of the gain; and after five years or more, 100% of the gain, as long as all other requirements are met.

What does this mean? There are greater tax benefits and flexibility for founders, startups and investors.

Changes to Forms 1099-K, 1099-NEC and 1099-MISC

Prior law: Third-party network transactions (Form 1099-K) had a $600 reporting threshold, as did Forms 1099-NEC and 1099-MISC.

New law: The Form 1099-K threshold reverts to $20,000 and 200 transactions, retroactively for 2025. The Forms 1099-NEC and 1099-MISC threshold stay at $600 for the year 2025 and increase to $2,000 for Jan. 1, 2026.

Example: Ed is a self-employed artist who sells his work on Etsy and Shopify. In 2025, Ed receives payments as follows:

- $1,500 from PayPal and Venmo from 50 separate sales of artwork
- $2,500 from a local business for commissioned artwork, paid by check
- $1,800 from another business for design services, paid by direct deposit (Zelle)

Based on the new rules and regulations, Ed will not receive a Form 1099-K, *Payment Card and Third-Party Network Transactions*, from PayPal and Venmo. He did not meet the threshold of $20,000 in payments or more than 200 transactions in one year. Ed only received $1,500 and had 50 transactions.

- Ed will receive Form 1099-NEC, *Nonemployee Compensation*, because he met the $600 threshold (newly indexed for inflation beginning in 2025) when he received a $2,500 check from a local business for the commissioned artwork.

Lastly, Ed will receive another Form 1099-NEC, *Nonemployee Compensation*, for the $1,800 payment for design services, as it exceeds the $600 threshold.

- **Note:** If Ed had sold his artwork to the business in 2026, the higher threshold would mean he'd receive only one Form 1099-NEC for the full amount of $2,500 instead of two forms; the $1,800 amount would be below the $2,000 threshold.

What does this mean? More businesses may have fewer forms to file for small and casual transactions.

Termination of energy and clean vehicle credits

Prior law: Credits for new and used clean vehicles, commercial clean vehicles, alternative fuel refueling property, energy-efficient home improvements, residential clean energy and new energy-efficient homes were available through at least 2032.

New law: These credits are terminated early:

- Clean vehicle credits (new and used) and commercial clean vehicle credits end for vehicles acquired after Sept. 30, 2025
- Alternative fuel refueling property credit ends for property placed in service after June 30, 2026
- Energy efficient home improvement credit ends for property placed in service after Dec. 31, 2025
- Residential clean energy credit ends for expenditures made after Dec. 31, 2025
- New energy-efficient home credit ends for homes acquired after June 30, 2026

Conclusion

The OBBBA permanently extends many businesses' tax benefits, increases expensing and depreciation opportunities, and simplifies reporting for many small businesses. However, it also ends or limits several energy-related incentives. We recommend reviewing your current and planned investments and compensation structures and can review available planning strategies in light of these changes at your next appointment.

If you have any questions about how these new rules affect your business, please contact our office for personalized advice.