# Corporate Income Taxes

Legislative, regulatory, and economic changes over the past year should prompt a reevaluation of corporate income tax planning at year-end. While the corporate rate remains unchanged at 21%, the rules for calculating and recognizing income have changed significantly. The 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. For companies in scope of the corporate alternative minimum tax (CAMT), guidance changes could offer significant relief.

## 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).

**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 the manufacturing, production (limited to agricultural and chemical production), and refining of 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 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.

Rev. Proc. 2025-28 provides procedural guidance for complying with or utilizing various elections available under new Section 174A, including a retroactive election for certain small business taxpayers 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.

## 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.

This change could be enough for many capital-intensive public companies to escape the limit on their interest deductions altogether, but some highly leveraged companies may still need to plan around the limit.

The OBBBA also 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**

Companies that might still be limited under the new rules should consider capitalizing interest in 2025 while the planning is still available. The OBBBA rules 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.

## 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 deduction 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 "catch-up" 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 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 tax 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.

## CAMT Developments in 2025

The largest public companies need to consider the corporate alternative minimum tax (CAMT) in their tax planning. The 15% minimum tax generally applies to corporations with annual average adjusted financial state income (AFSI) exceeding $1 billion, but it can impose compliance burdens on companies below this threshold.

Calendar year 2025 has seen several important administrative and legislative developments concerning CAMT, including a new safe harbor that could ease the compliance work. Although the tax entered into effect for taxable years beginning after December 31, 2022, no final regulations on CAMT have been issued, and taxpayers must instead monitor frequently

changing interim guidance to comply with their CAMT reporting obligations. In response to public feedback on proposed regulations published in 2024, the IRS in 2025 released several notices rescinding the guidance and making several favorable changes, including introducing simplified methods, extending penalty relief, and modifying other rules contained in the proposed regulations. Additionally, the OBBBA adds an adjustment for determining AFSI for intangible drilling and development costs (IDCs).

Notice 2025-27 responds to public comments on the proposed regulations by providing a new applicable corporation safe harbor using a simplified AFSI method for determining whether a corporation is subject to CAMT. The safe harbor threshold for the general AFSI test is $800 million, and the threshold for the second prong of the AFSI test for foreign-parented multinational groups is $80 million. These thresholds are higher than previously announced safe harbors, which used thresholds of $500 million and $50 million, respectively. Notice 2025-27 also waives penalties for underpayment of estimated taxes related to CAMT for tax years beginning after December 31, 2024, and before January 1, 2026.

Notice 2025-28 announces the IRS's intent to partially withdraw and repropose regulations regarding the application of CAMT to partnerships. This notice provides interim guidance designed to reduce the complexity and cost of applying CAMT to corporations with financial statement income from partnership investments. Key changes include:

- Two new alternative methods for calculating a CAMT entity partner's share of modified FSI: the top-down election and the limited taxable-income election.
- Relaxed requirements for requesting information from partnerships.
- Modifications to AFSI adjustments that apply certain partnership principles from current proposed regulations.

The IRS has indicated that it will issue further interim guidance on topics such as unrealized gains and losses on investment assets, AFSI adjustments from corporate and partnership transactions, and alternative rules for relying on proposed regulations before they are finalized.

Notice 2025-46 announces the IRS's intent to withdraw and repropose regulations on domestic corporate transactions, financially troubled companies, and tax consolidated groups. The IRS said the reproposed regulations will be consistent with interim guidance provided by the notice, which generally aligns more closely to regular tax rules.

Notice 2025-49 updates the reliance provisions governing which aspects of the proposed regulations and interim guidance taxpayers may rely on. Before the publication of any final regulations, taxpayers can generally rely on any section of the proposed regulations as long as the taxpayer consistently follows the applicable section in its entirety.

**New AFSI adjustment for IDCs.** The OBBBA introduces a specific AFSI adjustment for taxpayers in the oil and gas industry. For tax years beginning after December 31, 2025, companies must exclude financial statement depletion expenses related to IDCs and instead use the amount of IDCs allowed under Section 263(c). Aside from this change, the existing CAMT rules remain in place. However, taxpayers should be aware that changes to regular tax calculations may result in a less favorable CAMT position. For example, the OBBBA provisions may reduce a taxpayer's regular tax liability without a corresponding reduction in their tentative minimum tax, potentially resulting in a CAMT liability.

**Planning Considerations**

Corporations subject to CAMT that are undertaking tax planning strategies for regular tax purposes can benefit from proactively modeling the CAMT consequences to avoid or mitigate negative interactions between the two parallel regimes. Corporations in partnerships with CAMT entity partners should pay special attention to Notice 2025-28, which provides new approaches for determining AFSI from partnership investments. Moving into 2026, these partners and partnerships should consider early discussions to coordinate the methods being adopted, information needed, and timing of the requests. Taxpayers will also need to continue to monitor interim CAMT guidance until final guidance is issued.

## IRS Issues Guidance on Tracking Basis for Digital Assets

Public companies with digital asset investments may no longer use the universal method for determining the tax basis of digital assets held in virtual wallets and accounts as of January 1, 2025. A taxpayer that applied the universal method treated all its digital assets as if held in one wallet or account, even if they were actually owned in multiple wallets or accounts.

Pursuant to final regulations issued in 2024, which implement the reporting requirements enacted by the Infrastructure Investment and Jobs Act, taxpayers must now use the "wallet-by-wallet" approach to digital asset identification for each transaction. Under this approach, on a wallet-by-wallet basis, taxpayers must adequately identify, among other information, the particular units sold, the price of such units, and the basis of such units for each transaction no later than the date and time of the transaction (specific identification). Taxpayers that are unable to adequately identify the specific digital asset prior to or at the time of the sale are required to use the first-in, first-out (FIFO) rule for determining basis.

Taxpayers with digital assets in the custody of a broker may use a standing order or instruction to the broker to adequately identify the digital assets sold, disposed of, or transferred. Under Notice 2025-7, if the broker does not have the technology needed to accept specific instructions or standing orders communicated by taxpayers, the taxpayer may, until December 31, 2025:

- Make an adequate identification no later than the date and time of the sale, disposition, or transfer and keep a record of such identification for each individual sale throughout the year; or
- Record a standing instruction on its books and records that applies to a custodial account for every sale during the year.

These changes align with new IRS requirements for brokers, who now have substantial reporting obligations.

**Planning Considerations**

Specific identification requires more detailed recordkeeping but can result in more tax savings than applying the FIFO rule for each transaction. To simplify the administrative burden, companies should consider using fewer wallets and use certain cryptocurrency tax software to maintain records. If a taxpayer has digital assets in the custody of a broker or exchange, the taxpayer should consult with their tax advisors to prepare an

appropriate standing instruction as soon as possible before the December 31, 2025, deadline.