Using OBBBA's 'Big 3' tax provisions to drive strategy

00:05:03 - 00:21:13

Dana Lance

The One Big Beautiful Bill act presents companies with significant opportunities, but also complex trade-offs. Today we're talking about what we're calling "the big three business tax provisions" and how these must come together to drive an effective tax strategy.

00:21:16 - 00:28:14

Caleb Cordonnier

These provisions don't operate in isolation, and smart planning means looking at the bigger picture to model future outcomes.

00:28:16 - 00:37:07

David Sites

We'll share how companies are reacting, some risks to consider, and what strategies will help you maximize your opportunity under the big, beautiful bill.

00:37:09 - 00:58:23

Dana Lance

So, the bill restores 100% bonus depreciation and full expensing for qualified production property, and for capital intensive companies that can be really, really significant. So, Caleb, I'll start with you. How are you seeing these provisions impact companies' investment strategies and maybe the timing of those investments?

00:59:00 - 02:05:11

Caleb Cordonnier

Certainly, Dana. The restoration of 100% bonus depreciation and the permanent nature that the act gave it really allows companies to have a better chance at predicting the future – looking at the model of their capital investments and how they are going to play out in their taxes in the years to come.

I think the addition of qualified production property has really changed the landscape for manufacturers and producers. It's temporary through 2029, but it gives them the opportunity to invest heavily in U.S. manufacturing (and) consider bringing those operations back onshore. The other thing to keep in mind, though, is that this can be a huge deduction, and it may not always play out exactly the way you wanted it to when you take it into consideration with other provisions.

One, for example, would be net operating losses, which are generally limited to 80% of taxable income after 2017. So sometimes it might be better to look at the act's flexibility, the elections it provides, to choose not to take bonus for one or more classes of property during the year. Spread those deductions out so you have current deductions that match current income.

02:05:13 - 02:45:02

Dana Lance

So, you mentioned manufacturers and these investment decisions and strategies that companies are facing right now. It's not only about the timing of those investments, right. It's also about the location, as you noted. So, in this world of uncertain tariff landscape that we're in manufacturers in particular, are constantly facing this debate. Should I produce my goods onshore in the U.S. or should I produce my goods abroad? So, are you seeing, David, any changes in the strategies that companies are making because of this new law?

02:45:03 - 03:39:12

David Sites

Well, obviously, Congress and the administration designed this new law to incentivize domestic production. Right. We want to bring those jobs back, we want to produce onshore. But that's just one part of the decision process for a large organization. You also have to think about proximity to the rest of your supply chain, regulatory environment, access to labor, skilled labor, at an affordable price that can work in these production facilities.

And so, smart companies are taking a comprehensive look at the whole picture. What is their cost to produce? What is country A versus country B versus the U.S. look like? And I think that companies will ultimately make those decisions based on a number of factors and not just tax, but certainly the provisions in this new bill are further incentivization to come back to the United States.

03:39:14 - 03:58:09

Dana Lance

Under the new (Section) 174A, U.S. companies can now fully expense their domestic R&D expenditures. This is really, really significant. Are you seeing any key actions or key industry reaction to this change?

03:58:11 - 04:52:18

Caleb Cordonnier

I think certainly bringing R&D back into the United States was one of the goals of the act. And when you look at industries that maybe are either innovation heavy, especially upfront, innovation heavy – you might think of manufacturing or technology, life sciences, biotech – this is significant for them. They have a gigantic spend for research and experimentation every year. And the ability to take that into account currently versus spreading it over five years, they've been doing the last several years now, is very significant.

I think technology is also impacted a lot because it provided certainty to them that their computer software development is included within that definition of 174A expenditures now. And it gives them the ability to start planning and thinking about what those investments look like in the future.

04:52:20 - 05:14:04

Dana Lance

And as you do that, you have to model out what some of those scenarios might look like, right? I know, David, you've seen some significant ROI shift as companies have engaged in modeling exercises. So maybe I'll ask, have you seen any modeling missteps that companies are taking, and if so, what can we do to avoid this?

05:14:08 - 06:03:18

David Sites

Yeah, absolutely. So, the bill obviously is over a thousand pages. Several hundred pages of those are complex and intricate tax provisions. And no one provision kind of operates in isolation. And so, when companies look to model, how these provisions are impacting them, as you mentioned, it’s super important that they take an integrated look, right. They need to understand, how does taking bonus depreciation potentially impact my 174A decisions? How do my international operations integrate into my U.S. tax picture? And so, really smart companies are out there, they're kind of looking at the overall tax strategy, situation, taking into account all the provisions to make sure that the best laid plans actually get the results that companies are looking for. Super important.

06:03:20 - 06:33:07

Dana Lance

So, the bill permanently reestablishes an EBITDA-based interest expense limitation, as opposed to the more punitive EBIT limitation that companies were facing. And while this is favorable because the cost of capital is so high right now, this can still be really significant for companies. So let’s talk a little bit about what creative financing strategies you may be seeing companies deploy to try to really maximize their interest deductions.

06:33:09 - 07:24:14

Caleb Cordonnier

Absolutely, Dana. I think the last several years we've seen companies, especially capital-intensive companies that have outstanding debt, trying to find elective strategies to capitalize their interest expense, oftentimes to things like inventory that they can recover currently, rather than being limited over time. With the switch back to EBITDA, a lot of companies are finding that that's going to be very helpful taking that depreciation, especially bonus depreciation, into account.

But the interest rate is still high. It's still going to be a significant cost. And as they look to capitalizing new investments, I think a lot of companies are going to start to really reassess their required capitalization strategies and the methods that they're allowed to use to maximize those required capitalization now that elective capitalization is being turned off.

07:24:16 - 07:45:21

Dana Lance

And I have to assume this is still an area where we probably need a little more guidance as well. I'm going to pivot here a little bit, David. With the recent funding cuts here in in D.C., what can we really expect to see coming from Treasury? And realistically, what do you expect to see coming out of Washington D.C. in the near-term?

07:45:23 - 09:42:02

David Sites

It's a great question, and I'm going to start on the legislative front. The level of partisanship, you know, after this bill passed is really, really high. And so, I don't expect that we're going to see Congress produce any more tax law in the near term, certainly not before the midterm elections. So really, we're turning our focus to regulatory guidance.

And as you mentioned, the IRS has undergone significant funding cuts. And recent statistics say the IRS staffing levels are about 75% of where they were at the beginning of 2025. So, all that spells, less people to do more guidance in the wake of a significant legislative package. And so, taxpayers that I talked to are concerned, are we going to know how to fill these gaps in in the law? Are we going to have certainty around those provisions? And I think the answer is yes on some and others, it might take a little bit longer if it ever does come.

So, I expect to see the IRS focus themselves on some of the more urgent provisions. For example, the occupations that qualify for the no tax on tips. We expect to see something in early October on that. There'll be other provisions like (Sections) 174, 163J where perhaps we'll see some interim guidance in the form of notices. But I think it's going to take a longer time for full-blown regulatory packages to come out.

That's important because taxpayers … so much of the bill's benefit circled around certainty, right. Taxpayers wanted certainty on these provisions that were temporary. And while the bill offers some certainty, the regulatory gloss on this is still very uncertain. And so, taxpayers are still going to have to move forward and plan based on the best information available. I wouldn't expect that robust regulatory guidance is going to be fast and forthcoming, given the state of funding for the IRS and Treasury right now.

09:42:04 - 10:08:07

Dana Lance

Combining these big three provisions – 174 R&D full expensing, bonus depreciation and more favorable interest expense limitation rules – can present real opportunities, but real modeling challenges as well. What is the most significant insight that you've seen clients achieve when they have actually considered these three provisions together? Caleb, I'll start with you.

10:08:09 - 10:29:14

Caleb Cordonnier

I think balancing timing is key. They're going to have the opportunity to take advantage of these deductions, but making sure that you don't just rush to expense everything and miss out on something else, or create a limited net operating loss really is key when they come to those modeling decisions. So, timing I think is important.

10:29:16 - 10:30:12

Dana Lance

What about you, David?

10:30:14 - 11:08:01

David Sites

I think big picture, right? I think companies that are best served by the provisions of these (provision) in this bill are the companies that can step back and see how all the provisions interact with each other. For example, we can talk a lot about the international provisions today, but the international provisions have a significant impact on what decisions you might make on things like 163J, 174A and things like that. So, I'm encouraging companies to stay focused on the big picture, look at the overall interaction of all the provisions, and don't leave strategic tax efficiency on the table. You can achieve that by taking this big picture approach.

11:08:02 - 11:15:01

Dana Lance

Is there any final advice that you would give our audience today to help them unlock their big three potential?

11:15:03 - 11:18:20

Caleb Cordonnier

Keep your capital planning agile. Model with precision.

11:18:22 - 11:25:07

David Sites

Make sure your growth and financing strategies are aligned to the new provisions of this act.

11:25:09 - 11:32:12

Dana Lance

Contact your Grant Thornton advisor today to build a roadmap to help you unlock your big three opportunities.