

Forvis Mazars Quarterly Tax Webinar
4th Quarter 2026
Year-End Tax Planning & Midterm Election Impacts

November 5, 2026

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Agenda

1. Discussion of Current Events & Midterm Election Impacts with the Washington National Tax Office
2. 2026 Year-End Planning
    - Qualified Small Business Stock
    - State Conformity & Wealth Taxes
    - Opportunity Zones
    - International Tax Considerations



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Additional Year-End Planning Topics

1. Business Investment and Tax Incentives

- Qualified Small Business Stock
- Opportunity Zones
- R&D Credit and AI
- Qualified Production Property

2. Pass-Through Ownership

- Self-Employment Tax
- Deficit Restoration Obligations

3. Individual, Trust, and Estate Planning

- Trump Accounts
- Charitable Contributions (Individual & Business)
- Itemized Deduction Limitations for Trusts and Estates
- ETF Conversions & Other Strategies Under Scrutiny

4. State and Local Tax

- State 174/174A Conformity
- Sales Tax
- State and Local Wealth Taxes

5. International Tax and Trade

- Tariffs
- Multinational Considerations
- Pillar Two and Other International Tax Developments
- FDDEI Regulations
- Pro Rata Share of Subpart F Income Regulations

6. Other

- Construction Method Changes
- Clean Energy Tax Incentives
- Payroll

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01

Discussion of Current Events With the Washington National Tax Office

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Washington National Tax Office

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02

Year-End Planning: Qualified Small Business Stock

Howard Wagner



QSBS: A Powerful Capital Gain Exclusion
Section 1202 After the OB3

Why It Matters Now

- Section 1202 allows a shareholder to **exclude 50% to 100% of the capital gain** from the sale of qualified small business stock (QSBS) from federal tax. Many states also allow the exclusion.
- Prior to the *One Big Beautiful Bill Act* (OB3), the maximum exclusion per qualified shareholder is **the greater of $10 million or 10 times the shareholder's basis in the stock**.
- OB3 passed in July 2025 and expanded the benefit for stock acquired after July 4, 2025: **the dollar cap rises to $15 million**, and **the company gross asset limit rises from $50 million to $75 million**.
- The OB3 also **shortened the holding period**. Three years now earns a 50% exclusion and four years a 75% exclusion, with the includable gain taxed at 28% (based on current tax rates and mechanics). A five-year hold still earns the full 100%.
- Older positions remain under the prior rules, so **acquisition dates drive the analysis**.
- Qualification carries a significant number of requirements, so careful planning as early as possible is essential.

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Qualifying & Planning
What to Check & What to Consider

Does It Qualify?

- The issuer must be a domestic C corporation, with stock issued after August 10, 1993.
- The stock must be acquired at original issue from the corporation.
- Gross assets under $75 million, or $50 million for stock issued before July 5, 2025, at issuance.
- At least 80% of assets used in the active conduct of a qualified trade or business.
- **Excluded:** professional services, consulting, financial services, brokerage, banking, insurance, leasing, farming, and hospitality (among other sectors).
- The gain must be taxable to an individual, estate, or trust.

Options & Transfers

- Stock received as compensation, including by exercising options, can qualify as QSBS.
- Consider exercising options or making Section 83(b) elections to begin the holding period, weighing the current tax cost.
- Gifts, testamentary transfers, and qualifying partnership distributions generally preserve QSBS status.
- QSBS status can, in some circumstances, be preserved in tax-free exchanges.

Expanding the Benefit

- The cap applies per taxpayer. If a partnership or S corporation holds QSBS, each partner in the partnership is considered the owner of the stock eligible for the exclusion.
- Planning may be available to have multiple family members hold stock in the same C corporation to expand the QSBS exclusion.
- Section 1045 allows a rollover of gain from the sale of QSBS held for more than 6 months into a new QSBS.
- That rollover window is only 60 days, and it defers gain rather than excluding it.

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What to Do Before Year-End
Your Action List

Three Priorities

1 Confirm Qualification

- Verify C corporation status and issuance dates for each position.
- Inquire about investments held by partnerships.
- Check the gross asset test as of the date your stock was issued.
- Confirm the business is not on the excluded list.
- Gather documentation now, not at exit.

2 Start & Track the Clock

- Identify positions approaching the three, four, and five-year marks.
- Evaluate exercising options or making Section 83(b) elections to begin the holding period.
- Note which positions were acquired after July 4, 2025.
- Model the after-tax difference between selling now and waiting.

3 Expand & Protect the Benefit

- Within acceptable guidelines, consider options to increase QSBS ownership among family members.
- Coordinate gifts with your estate plan before year-end.
- Keep the 60-day Section 1045 rollover window in mind for any near-term sale.
- Consult your tax advisor before acting on any strategy here.

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03

Year-End Planning: State Conformity & Wealth Taxes

Karin Ecroyd

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State 174/174A Conformity
State Tax Treatment of Federal R&E Expensing

Four Conformity Positions to Evaluate

1 Rolling Conformity

A state that has not affirmatively decoupled follows the federal 174/174A rules enacted under OB3.

2 Static Conformity

A state that has not affirmatively decoupled follows the federal rules in effect on its conformity date.

3 Affirmative Decoupling

Review statutes and regulations for an earlier federal version or special rules, including possible TCJA decoupling and continued full expensing.

4 Transition Diligence

Evaluate OB3 transition rules for 2022-2025 and their effect on each state's conformity position.

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Washington Expands Sales Tax to Many Service Categories
ESSB 5814 – Effective October 1, 2025

What Changes & How to Respond

Tax Base Broadens

More services become retail sales; sellers collect retail sales tax and report retailing B&O tax.

Newly Taxable

Advertising; IT and custom websites; investigation, security and armored-car services; temporary staffing; live presentations; custom software and modifications.

Digital Rules Tighten

Several digital automated service exclusions are repealed. Qualifying affiliate transactions are excluded; resale or multiple-points-of-use relief may apply.

Business Response

Update taxability matrices, contracts, sourcing data, and billing systems; gather exemption documentation and assess purchaser use tax.

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Other Notable Sales Tax Developments
Digital Tax Watch

Three developments are reshaping how states tax digital products, services, and remote sellers.

California – Digital Tax Base

Effective January 1, 2027, the expansion largely targets prewritten software while excluding other digital products; sourcing places significant weight on the billing address.

Maryland – Taxpayer Win

The Tax Court found the digital advertising tax violated the *Internet Tax Freedom Act* and other constitutional protections. The decision may affect similar taxes nationwide, provides a potential compliance roadmap, and is likely to be appealed.

Wayfair – Thresholds Simplify

States continue to abandon the transaction threshold, which unfairly impacted high-volume, small-dollar sellers, in favor of a single dollar-based threshold.

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Penny Production Ends
Impact on Cash Transactions & Sales Tax

Last penny minted November 12, 2025.

Why Production Stopped

Production cost rose from 1.42 cents to 3.69 cents per penny over 10 years. The U.S. Mint projects $56 million in annual savings.

Still Legal Tender

About 114 billion pennies remain in circulation, but Federal Reserve distribution points will stop filling penny orders as inventory runs out.

Federal Rounding

No federal rounding guidelines exist. The *Common Cents Act* would round cash totals ending in 1, 2, 6 or 7 cents down and 3, 4, 8 or 9 cents up to the nearest nickel.

Sales Tax Unchanged

Tax is still computed on the unrounded sales price to the third decimal place. Michigan, Texas, Utah, and Florida have issued guidance; update POS systems and reconciliation.

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NYC Targets High-Value Second Homes With a New Annual Surcharge

Effective July 1, 2026.

An annual surcharge on non-primary residences, first payable January 1, 2027, with a scheduled sunset of June 30, 2031.

Phase 1 Thresholds

Applies to 1-3 family homes valued at $5M and above, and to condos and co-ops valued at $1M and above.

Phase 2 From July 1, 2028

A single $5M threshold with 0.80%-1.30% rates across all property types, using comparable-sale values.

Phase 1 Home Rates

0.80%, 1.05% and 1.30% at $5-15M, $15-25M and above $25M, respectively.

Primary Residence Exemption

No surcharge if used by the owner, a tenant, immediate family, or a qualifying majority owner of an entity.

Phase 1 Condo Rates

Condos and co-ops: 4.00%, 5.25% and 6.50% at $1-3M, $3-5M and above $5M, respectively.

What Owners Should Do

Ownership beyond straight fee simple can complicate proving exemption. Claim exemptions by October 13, 2026 (deadline was extended twice) and retain records; implementation continues while litigation is pending.

Developments as of 11/5/26

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Deadlines, Litigation and What Owners Should Do
Where implementation stands today

Exemption filing

DOF exemption applications were due October 13, 2026. Taxpayers who miss the deadline should evaluate available Tax Commission and other appeal rights.

Litigation

A trial court in Richmond County ruled against the manner by which the city implemented the tax, but that ruling is on appeal. Additionally, two taxpayers have challenged the legality of the entire tax in a trial court in Suffolk County.

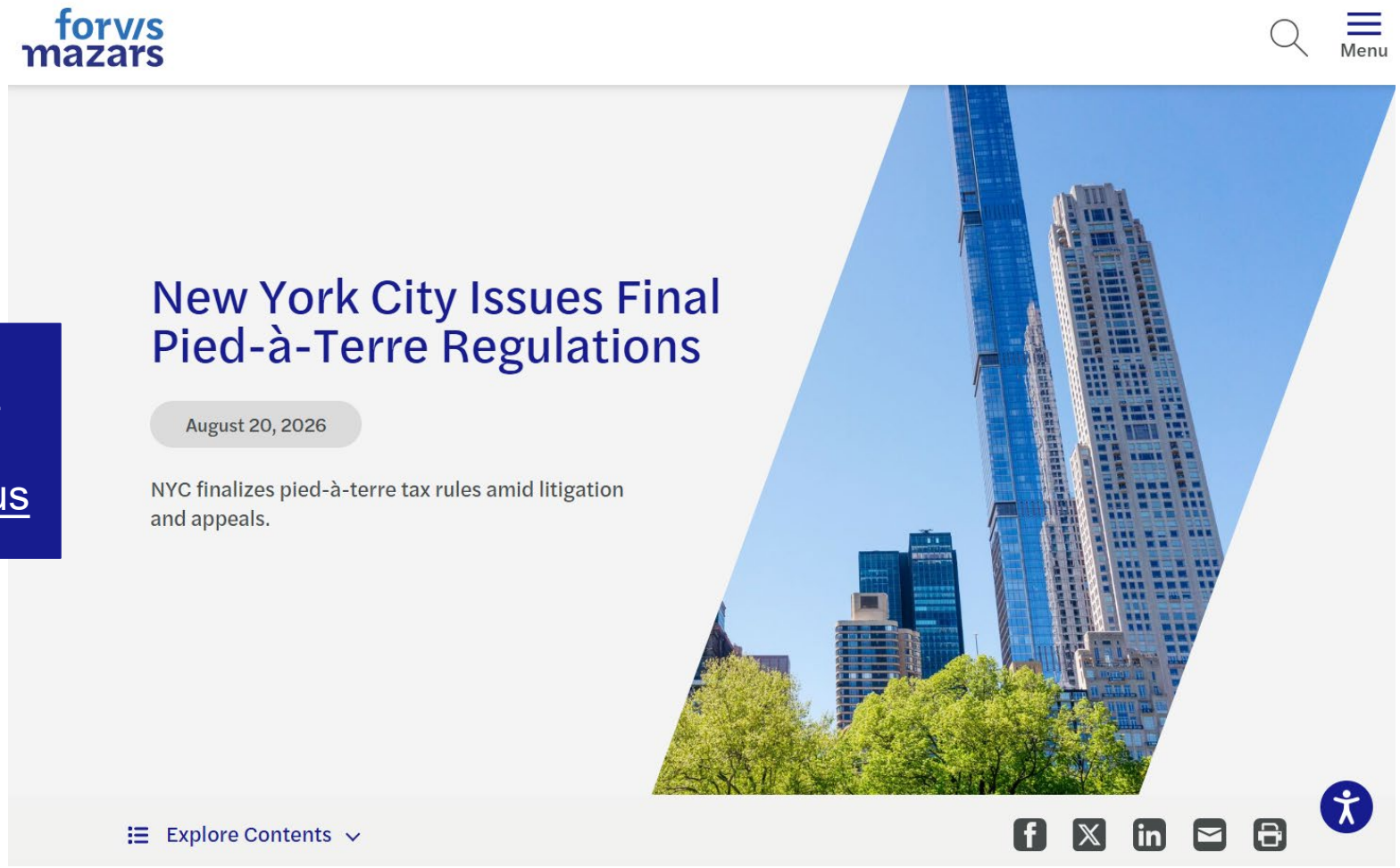
Planning

Review ownership structures, confirm leases are arm's-length and documented, model the 2028 valuation reset, and preserve residency records. **Valuation is an important consideration.**

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Critical Updates on the Status of the Tax and the Litigation

Read the full article on forvismazars.us



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Other Enacted Wealth Taxes or Under Consideration

Three Approaches – One Proposed, Two Enacted

1 California
Proposed

A one-time graduated wealth tax on net worth above $1 billion, headed to the November ballot, with a January 1, 2026 residency test and asset-specific rules.

2 Washington
Enacted

A tax on taxable income above $1 million beginning January 1, 2028, including a pass-through entity tax election.

3 Rhode Island
Enacted

The “Taylor Swift” tax applies to qualifying non-owner-occupied, non-rental residential property, effective July 1, 2026 at 0.5% of value above $1 million.

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04

Year-End Planning: Opportunity Zones

Howard Wagner



OZ 2.0: What Changed
OB3 Rewrote the Rules

Key Changes Under “OZ 2.0”

Permanent program: Section 70421 of the OB3 made Opportunity Zones (OZs) a permanent part of the Internal Revenue Code, with new zone designations every 10 years.

Rolling five-year deferral: For investments made after December 31, 2026, deferred gain is recognized on the fifth anniversary of the investment rather than on a fixed statutory date.

Basis step-up: The 10% step-up at five years remains; the additional 5% step-up at seven years is eliminated.

10-year exclusion, 30-year cap: Post-acquisition appreciation stays excludable after a 10-year hold, but for investments held beyond 30 years the basis adjustment is capped at fair market value on the 30th anniversary.

Rural incentives: New qualified rural opportunity funds receive a 30% basis step-up at five years, and the substantial improvement threshold for rural property drops from 100% to 50% of basis.

Enhanced reporting: New Sections 6039K and 6039L impose annual information reporting on funds and qualified opportunity zone businesses for tax years beginning after 2025 backed by penalties that scale with fund size.

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Two Regimes, One Date
December 31, 2026 Is the Divide

On or Before 12/31/2026

Original 2017 tax act rules continue to apply.

- Deferred gain is recognized on December 31, 2026, or earlier upon an inclusion event such as a sale of the fund interest.
- The 10-year exclusion of post-investment appreciation still applies, provided disposition occurs by December 31, 2047.
- Gains reinvested by year-end get only a short deferral but may use the existing zone map.

After 12/31/2026

Must be made in newly designated zones to access OZ 2.0 benefits.

- Five-year rolling deferral, with a 10% basis step-up at five years.
- 30% step-up for qualified rural opportunity funds.
- Basis adjustment capped at fair market value on the 30th anniversary.

The 2026 Designation Round

Existing zones do not carry over and sunset on December 31, 2028.

- The nomination window opened July 1, 2026 for 90 days, with one possible 30-day extension.
- Revenue Procedure 2026-14 identifies 25,332 eligible tracts, 8,334 of them entirely rural.
- Designations are capped at 25% of each state’s low-income communities and run 2027 through 2036.

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What to Do Before Year-End
Priorities for the Rest of 2026

Action Items by Stakeholder

1 Model the 2026 Gain Recognition

Investors & Family Offices

- Confirm remaining deferred gain after prior basis increase(s).
- Model the year-end recognition event and resulting tax liability.
- Plan estimated tax payments and liquidity needs.

2 Decide on Investment Timing

Fund Sponsors & Asset Managers

- Test fund documents, asset testing, and investor reporting against the new requirements.
- Confirm how portfolio businesses will deliver required data to the fund.
- Assess rural fund qualification for post-2026 offerings.
- Build a compliance calendar; do not treat this as routine Form 8996 work.

3 Prepare for New Reporting

Businesses & Developers

- Compare project sites against the eligible tracts in Revenue Procedure 2026-14.
- Do not assume a current zone will requalify for 2027 through 2036.
- Revisit rural projects under the 50% substantial improvement rule.
- Keep records supporting deferral, basis, holding periods, and exclusion eligibility.
- Utilize Form 8997 for reporting.

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05

Year-End Planning: International Tax Considerations

Michael Cornett



FDDEI Regulations
The OB3 Export Incentive & New Disposition Exclusion

The *One Big Beautiful Bill Act* (OB3) recalibrated the former FDII regime. Section 250 now gives domestic corporations a deduction against foreign-derived deduction eligible income (FDDEI), and a new exclusion pulls disposition income out of the base before any foreign-use test applies.

A Lower Deduction Rate

- For tax years beginning after December 31, 2025, a domestic corporation may deduct 33.34% of its FDDEI, down from the prior 37.5% FDII deduction. The 2026 tax year is the first full year at the new rate.

A Seventh DEI Exclusion

- OB3 added Section 250(b)(3)(A)(i)(VII), excluding from deduction eligible income any income or gain from the sale or other disposition of intangible property and other depreciable, amortizable, or depletable property.

FDDEI Is a Subset of DEI

- DEI is the starting pool; FDDEI is the foreign-derived slice of it. Because the exclusion operates at the DEI level, the income is removed upstream and there is no foreign-use test left to satisfy.

Effective for Sales After 6/16/25

- The statutory exclusion already applies to sales and other dispositions occurring after June 16, 2025, even though the regulations are still proposed. Comments are due October 5, 2026.

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FDDEI Regulations
Scoping the Exclusion Across Your 2026 Transactions

Caught by the Exclusion

- Other excluded property is defined broadly: any property that is, or has been, subject to depreciation, amortization, or depletion in the seller's hands—including fully depreciated assets.
- Intangible property within the meaning of IRC Section 367(d)(4) is captured on the same terms.
- Sale or other disposition is determined under general federal income tax principles, so deemed sales, entity classification changes, and outbound Section 367(d) transfers are all in scope.
- The full amount of income or gain is removed from DEI, and the result does not depend on how foreign the counterparty or end use is.

Outside the Exclusion

- The expansive Section 250(b)(5)(E) definition of "sale"—which normally sweeps in any lease, license, or exchange—does not apply to this exclusion.
- A transaction characterized as a lease or license under general tax principles is not a disposition, so royalty and license income can still qualify as FDDEI.
- Software is where the line is hardest: transferring a copyrighted article can be a sale, while a right to use under retained ownership is a license. Terms, exclusivity, duration, and risk all matter.
- A related-party anti-abuse rule targets arrangements papered as leases or licenses, so characterization must be supported by substance.

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FDDEI Regulations
Actions to Take Before the 2026 Year Closes

The regulations are proposed, not final, but the statutory exclusion already applies to dispositions occurring after June 16, 2025—so it hits the 2026 return and the year-end provision.



Inventory 2026 Dispositions

- Identify sales, deemed sales, entity classification changes, and Section 367(d) transfers involving intangible property or any asset that has been depreciated, amortized, or depleted, including fully depreciated assets.



Requantify the Benefit & Provision

- Recalculate DEI and FDDEI with the excluded income removed, reset the expected benefit at the 33.34% rate, and update the year-end provision and effective tax rate forecast for the reduced base.



Structure Transactions Still in Flight

- Test whether year-end deals are sales or licenses under general tax principles, document software and related-party arrangements on their substance, and weigh timing before the books close.

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Proposed Pro Rata Share Regulations: What Changed

REG-115646-25 Moves From Last-Day Ownership to Ownership-Period Attribution

Six shifts drive the practical impact on inclusions, deal terms, and compliance for controlled foreign corporation (CFC) years beginning after 2025.

Any-Day Inclusion

A U.S. shareholder owning CFC stock on any day of the CFC year may have a section 951(a)(1)(A) inclusion. Section 956 keeps the last-day test.

Daily Proration

Subpart F income, tested income, and tested loss follow shares and days of qualifying ownership rather than a single year-end snapshot.

Mandatory Closing

When a foreign corporation becomes or ceases to be a CFC, its taxable year closes for all Code purposes and all shareholders.

Elective Closing

A decrease of more than 50% in section 958(a) U.S. shareholder ownership can support two short years; related-party transfers are disregarded and partnership transfers are tested by look-through.

Capital Structure

Multiple classes still use a hypothetical distribution; changing share counts use a weighted-average denominator.

Reporting & Transition

Form 5471 stock-change detail expands; the dividend transition rule follows Notice 2025-75, with documentation required and no broader safe harbour.

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How the Rules Work in Practice

Four Worked Patterns That Cover Most Transaction Fact Patterns

Illustrative examples from the proposed regulations. The closing date and the stock ledger are now core computation inputs, not just documentation.

Daily Proration

- CFC tested income $50; P sells 100% to R on May 26
- Seller includes the disposition day
- P: $50 x 146/365 = $20. R: $50 x 219/365 = $30

Multiple Classes

- $100 E&P, $50 subpart F; 70 common and 30 preferred (4%, $10 par)
- Preferred E&P $12, common $88
- Subpart F: $6 preferred, $44 common

Elective Closing

- $365 full-year income; $65 earned Jan-Jun, $300 Jul-Dec; sale June 30
- No election: P $181, R $184
- Election: $65 to P, $300 to R

Changing Share Counts

- 15 of 30 preferred shares redeemed June 30
- Weighted average = (30 x 181 + 15 x 184) / 365 = 22.44 shares
- Common subpart F share: $45.51

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What to Do Now

Four Points to Carry Into 2026 CFC Modeling & Deal Execution

Model now, preserve flexibility, and document every ownership change.

1 Ownership Days Now Matter

- A seller can no longer assume disposition before year-end eliminates the inclusion. Test every midyear transfer.

2 Elections Are Strategic

- Model daily proration against an elective short-year close, and address consent and binding agreements in the deal documents.

3 Capital Structure Matters

- Preferred rights, arrearages, liquidation value, and share-count changes all move class allocations.

4 Data Discipline Is Essential

- Build a day-sensitive, class-sensitive stock ledger now; it drives Form 5471 detail, elections, foreign tax credit modeling, and transition substantiation.

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