



OB3 Impacts: ASC 740 Implications

Tax Accounting Considerations for 2025 & Beyond

December 3, 2025

OB3 Impacts Webinar Series

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Meet Today's Presenters



Phil Laminack
Partner
Tax, ASC 740



Sanjay Wadhwani
Director
Tax

Agenda

1. Tax Accounting Basics – Changes in Tax Laws or Rates
2. Select Business Provisions & Related Tax Accounting Impacts
3. Select International Provisions & Related Tax Accounting Impacts
4. Summary examples
5. Select Energy Credit Provisions



01

Tax Accounting Basics – *Changes in Tax Laws or Rates*



ASC 740 – Accounting for changes in tax laws or rates

Basic Provisions

Basic Concepts

- For U.S. Federal tax purposes, the enactment date is the date on which the president signs legislation into law.
 - Foreign jurisdictions may have other legislative procedures to assess when concluding whether law is “enacted.”
 - Careful consideration of the local rules and customs is necessary when considering non-U.S. changes.
- The effects upon tax expense, both current and deferred, are reported as part of the tax provision attributable to income from continuing operations, regardless of the category of income in which the underlying pretax income or expense or asset or liability was or will be reported.
 - ASC 740 provides a general prohibition against “backwards tracing”, *i.e.*, the concept of considering the original source of the basis difference when recording the tax consequences of a change in tax laws or rates.
 - Changes in tax laws and rates are not recorded to the origin of the basis difference, *e.g.*, basis differences that originate in Other Comprehensive Income (“OCI”) yield deferred tax at the currently enacted rates recorded in OCI.
 - When tax rates change, the basis differences remain in OCI but the change in tax effect is reported in income from continuing operations.
 - Watch for disparities that may arise.

ASC 740 – Accounting for changes in tax laws or rates

Basic Provisions

Interim Reporting – *Background*

- Entities that prepare interim financial statements report the effects of changes in tax laws or rates in the interim period that includes the enactment date.
- Interim reporting guidelines were standardized in 1973 as APB 28 and are now codified ASC 270 – Interim Reporting.
- The *Income* Tax Provision is governed by ASC 740-270 (formerly FIN 18 – Accounting for Income Taxes in Interim Periods).
 - This Standard addresses how to measure the tax provision for interim reports when the actual tax expense is based on annual income, and
 - Allows estimates and judgments to determine the interim tax provision.
- SEC requires quarterly reports for public companies.
 - Regulation S-X provides additional reporting and disclosure standards.
 - Interim disclosures may be expanded and amplified in MD&A.

ASC 740 – Accounting for changes in tax laws or rates

Basic Provisions

Interim Reporting – *Components of interim tax expense*

- Income taxes for interim reporting is separated into:
 - Those components of tax expense applicable to income from continuing operations, and
 - Those applicable to significant, unusual, or infrequently occurring items, discontinued items, and extraordinary items.
 - Items considered to be “... significant, unusual, or infrequently occurring ...” are commonly referred to as “discrete” items.
- The tax effect of items attributed to income from continuing operations are recorded by application of the Estimated Annual Effective Tax Rate (“EAETR”) against year-to-date pre-tax income.
- The tax effect of the second set of items, including those considered “discrete,” are calculated separately and added to tax expense for the quarter.

ASC 740 – Accounting for changes in tax laws or rates

Basic Provisions

Interim Reporting – *Estimated Annual Effective Tax Rate (“EAETR”)*

- To calculate the provision by reference to the annual effective rate method, entities must:
 - Estimate projected pre-tax income, state and foreign tax, permanent and temporary differences, credits and carryforwards, and the projected tax effects of year-end basis differences and valuation allowances for the entire year. **(1)**
 - Calculate the tax liability for the year. **(2)**
 - Determine the “Estimated Annual Effective Tax Rate” (EAETR) for the year, **(2) / (1)**, and
 - Multiply the EAETR computed by the actual year-to-date pre-tax income (loss) from continuing operations to yield the estimated year-to-date tax expense.
- Entities then deduct the prior interim period year-to-date income tax expense from the current interim period year-to-date income tax expense to arrive at the current interim period income tax expense, and
- Add the tax effect of the discrete items that arise in the interim period.

ASC 740 – Accounting for changes in tax laws or rates

Reporting the Effects

Summary – Interim Reporting of changes in tax laws or rates

- Generally, the effects of changes in tax laws or rates to the current tax payable or receivable should be reported in the EAETR no earlier than the period of enactment.
- The effects upon deferred tax are reported by reference to the balances impacted; that is, changes to the beginning of the year balances of deferred tax assets, liabilities, or adjustments to prior-year taxes are reported as discrete items in the period of enactment.
- When assessing the effect of changes in tax laws or rates upon any valuation allowances,
 - Companies should note that changes in judgment regarding the realization of beginning of the year balances of deferred tax assets based on future years' sources of income should be reported as discrete items.
 - See ASC 740-20-45-3.
- For legislation with retroactive effects, prior interim periods should not be restated.

ASC 740 – Accounting for changes in tax laws or rates

Basic Provisions

Basic Concepts – *Scheduling Future Taxable Income*

- Scheduling is necessary when the existence/amount of a valuation allowance would materially vary based on timing of future taxable income
- There are two main approaches that entities often consider in developing a scheduling model
 - Approach 1 – Difficulties in forecasting
 - Schedule reversals of temporary differences and available tax planning strategies
 - Future originating temporary differences are generally not considered
 - Applied when future taxable income is less apparent without precise scheduling
 - Approach 2
 - Schedule reversals of temporary differences/available strategies and consider future taxable income with originating temporary differences
 - May help estimate amounts expected to expire unused

ASC 740 – Accounting for changes in tax laws or rates

Basic Provisions

Basic Concepts – *Change in Valuation Allowance – Interim Periods*

- A change in valuation allowance related to current-period EAETR activity should generally be included in the EAETR.
- A change in valuation allowance related to prior-period items or discrete items should generally be treated as a discrete item for the period and be excluded from the EAETR.

02

Select Business Provisions & *Related Tax Accounting Impacts*



The Act

The Big “3”

Bonus Depreciation

In general

- Act permanently reinstates 100% bonus depreciation for most tangible personal property acquired after January 19, 2025.
- Does not apply if a binding contract to acquire the property existed prior to January 20, 2025.
- Election to use reduced bonus depreciation percentage in first taxable year ending after January 19, 2025.

Bonus depreciation on new production facilities

- New 100% bonus depreciation for nonresidential real property meeting certain requirements used in the manufacturing, production, or refining of tangible personal property.
- Applies to property if construction started after January 19, 2025, and before January 1, 2029, provided it is placed in service before January 1, 2031.
- Manufacturing defined by reference to “substantial transformation” test of Section 954(d).

The Act

The Big “3”

Section 174A Research Costs

- TCJA required capitalization and five-year amortization of domestic research and experimentation (“R&E”) expenses beginning in 2022.
- Under the Act, domestic R&E expenses are deductible when incurred for tax years beginning after December 31, 2024.
- Foreign R&E expenses continue to be capitalized and amortized over 15 years.
- Retroactive relief available:
 - Small businesses (generally gross receipts under \$31 million under a controlled group test) would be able to file amended returns for 2022, 2023, and 2024 tax years to recover previously capitalized domestic research costs.
 - All taxpayers have the option to deduct previously capitalized domestic research costs in first tax year beginning after December 31, 2024, or alternatively take the deduction over the first two tax years beginning after December 31, 2024.
- Returns Section 280C mechanics to pre TCJA status.

The Act

The Big “3”

Tax Accounting for Bonus depreciation and R&E expenditures

- Enacted changes to depreciation and R&E expenditures are primarily temporary in nature.
- The effects of additional depreciation or the expensing of domestic R&E costs will likely give rise to larger taxable temporary differences.
- Should these additional expenses trigger operating loss or other tax attribute carryforwards, companies may need to assess the realizability of those deferred tax assets.
- Companies should also assess whether additional accelerated deductions impact the timing of reversing temporary differences in pre-enactment scheduling exercises.



The Act

The Big “3”

Section 163(j)

- Limitation currently based on 30% of tax basis EBIT.
- Act permanently increases the limitation to 30% of tax basis EBITDA.
- Change would be effective for tax years beginning after December 31, 2024.
- Redefines roles of Section 163(j)'s interest limitation provisions with certain interest capitalization provisions to give the Sec. 163(j) limitation priority.
 - For tax years beginning after 2025, provides that Sec. 163(j) limitation is calculated prior to the application of any interest capitalization rules, except for interest capitalized under Section 263(g) or 263A(f).
 - In so doing, certain ordering rules would require that you apply the Section 163(j) limit to amounts of interest which would be required to be capitalized and then any remainder would then be applied to amounts of interest that would be deducted.
 - No portion of business interest carryforwards are to be treated as business interest expense to which an interest capitalization provision applies.

The Act

The Big “3”

Tax Accounting for Section 163(j)

- The adjusted taxable income (“ATI”) base will likely increase as The Act permanently reinstates the tax EBITDA measure.
- The increased interest limitation may yield higher current interest expense deductions and greater capacity to utilize interest carryforwards.
- Companies may find that associated deferred tax assets reverse more rapidly and thus should consider the effects upon pre-enactment valuation allowances.
- Companies should also consider the concept of tax benefit substitution should the realization of one deferred tax asset, such as an interest limitation carryforward, merely generate another deferred tax asset such as a net operating loss carryforward. (ASC 740-10-5-37)



The Act

Corporate Charitable Contribution

New 1% floor on charitable contributions

- Corporations generally allowed to deduct charitable contributions up to 10% of corporation's taxable income (contribution base).
- 1% floor for tax years beginning after December 31, 2025.
 - If contributions less than 1% of contribution base, no deduction.
 - If contributions are between 1% and 10%, deduction is actual contributions less 1% of contribution base.
 - If contributions exceed 10% of contribution base, current-year deduction is 9%.
 - Five-year carryforward for:
 - Contributions in excess of 10% contribution base.
 - The 1% floor for years in which the 10% limit was exceeded.

The Act

Increased Section 179 Property Deduction

- For property in service in taxable years beginning after December 31, 2024, the Act increases the maximum amount that a taxpayer may expense under Section 179 from \$1 million to \$2.5 million.
- The deduction currently begins to phase out when total purchases exceed \$1.25 million.
- This level would increase to \$4 million and be indexed for inflation for tax years after 2025.

The Act

Other Corporate Provisions

Tax Accounting for Charitable Contributions & Section 179

- We would view each of these items to be temporary in nature and with tax accounting considerations similar to bonus depreciation and current R&E expensing.
- Companies should ensure careful tracking of charitable contributions to properly measure amounts carried forward, available for utilization, and expiration dates.



The Act

Executive Compensation – Aggregation for Section 162(m)

- For tax years beginning after December 31, 2025, the Act expands aggregation rules to include certain controlled groups for purposes of the Section 162(m) \$1 million deduction disallowance applicable to public companies and provides specific allocation requirements for amounts disallowed as a deduction.
- This change broadens the base of entities that may be included when considering compensation limits.
- Aggregation rules for controlled groups are codified, requiring employers to consider their organizational structure when determining who is a covered employee.
- Covered employees include principal executive officer (“PEO”), principal financial officer (“PFO”), and top three highest paid officers (not including PEO/PFO) and once covered, always covered.
- **The “ARPA 5” – American Rescue Plan Act 5:** For tax years beginning after 12/31/2026, the term covered employee is expanded to include the top five most highly paid *employees* (not including the PEO/PFO, and top three officers, resulting in a minimum of 10).

The Act

Other Corporate Provisions

Tax Accounting for Executive Compensation Changes

- For publicly traded taxpayers, the change in measuring which entities within a controlled group are considered for Section 162(m) may increase the number of employees to whom the limitation is applied.
- Amounts disallowed are permanently non-deductible and thus will impact the effective tax rate.
- Further, expanding the group of employees whose compensation may be limited could impact larger portions of executive compensation accruals, and thus the portion of pre-enactment future deductible temporary differences and any related deferred tax assets.
- Taxable income projections for valuation allowance assessment may also be affected.



ASC 740 – Accounting for changes in tax laws or rates

Basic Provisions

Basic Concepts – *The follow-on effects of changes in tax laws & rates*

- Changes in tax laws and rates may have follow-on impact to other aspects of the income tax provision.
 - Accelerating tax deductions can increase deferred tax liabilities.
 - The timing of tax planning strategies may be modified.
 - Increasing deduction limitations may reduce future projections of taxable income or create net operating losses in scheduling exercises.
 - Legislated sunset of tax credits may impact timing of future utilization of historical deferred tax assets.
- Each of these may change conclusions regarding the realization of deferred tax assets.
- And, as with the effects upon tax expense of changes in tax laws or rates, impacts to the valuation allowance are generally reported as tax expense on income from continuing operations. (ASC 740-10-45-20)
- There are some exceptions to the general rule.

03

Select International Provisions &
Related Tax Accounting Impacts



The Act

International Provisions

Section 250 Changes

- **Repeal of Net Deemed Tangible Income Return Requirement**
 - Repeals the requirement that net deemed tangible income return be considered in the computation of FDII, *i.e.*, the 10% return on QBAI.
 - Thus, the current FDII regime would be renamed foreign derived deduction eligible income (FDDEI).
- **Decreases to the Section 250 deduction rates for NCTI (formerly GILTI) and FDDEI (formerly FDII)**
 - The Act reduces the Section 250 deduction rate for NCTI from 50% to 40% and reduce the Section 250 deduction rate for FDDEI from 37.5% to 33.34%.
- **Redefining Deduction Eligible Income for purposes of the FDDEI deduction**
 - Excludes any income or gain from sale or disposition of intangible property (including any Section 367(d) deemed royalty) and sales of depreciable property arising after June 16, 2025.
 - Expense allocation and apportionment rules for deduction eligible income would be modified to only include directly allocable deductions and some apportionable expenses against deduction eligible income.
 - However, certain apportioned expenses (interest and R&D) are not applied against deduction eligible income for purposes of computing the FDDEI deduction.

The Act

International Provisions

Foreign Tax Credit Changes

- **Modification of Section 960(d) haircut for NCTI Foreign Tax Credits (formerly GILTI FTCs)**
 - The TCJA provided a 20% haircut to all tested income taxes generated through the GILTI computation under Section 960(d), meaning taxpayers are only able to claim an FTC equal to 80% of the foreign income taxes paid associated with tested income.
 - The Act would modify this 20% haircut and effectively allow for 90% of foreign income taxes paid pursuant to the NCTI (former GILTI) regime to be subject to FTCs, *i.e.*, 10% haircut applied.
- **Modification to Foreign Tax Credit with respect to PTEP associated with NCTI under Section 901 or 960(b)**
 - The TCJA did not provide a 20% haircut to foreign tax credits relating to PTEP in the GILTI category.
 - The Act includes a rule that applies the 10% haircut above to any FTCs attributable to PTEP distributions to align with the NCTI FTC regime.

The Act

International Provisions

Foreign Tax Credit Changes (continued)

- **Modifications to sourcing rules for inventory sold to include a cap to the amount of foreign source income reflected in the FTC limitation computation.**
 - The Act would include a new sourcing rule for FTC limitation purposes that effectively caps the amount of foreign source income from the sale of inventory that is produced in the United States to no more than 50% of the total taxable income from the sale or disposition of inventory property if attributable to a foreign office or branch.
 - Applies only for Section 904 FTC limitation purposes.
 - The general rule requiring that inventory sales be sourced based on where the production activities of the inventory occurred is to be respected as noted in Section 863(b) for all other purposes.
- **Modification of the FTC Limitation rules as applied to NCTI.**
 - Modifies the expense allocation and apportionment rules associated with the NCTI limitation category (f/k/a GILTI) by only requiring an allocation of the Section 250 deduction relating to NCTI and an allocation of any directly allocated expenses.
 - Any expenses that would be apportioned because they do not definitely relate to NCTI, would effectively be allocated and apportioned to the US source residual basket for FTC limitation purposes.

The Act

International Provisions

BEAT Changes

- The 2026 sunset provisions that would have eliminated the ability to claim R&D credits and certain other credits against the Base Erosion Minimum Tax Amount (“BEMTA”) liability are repealed in their entirety.
- The modified tax liability rate would increase from 10% to 10.5% when determining the BEMTA for tax years after 2025.



The Act

International Provisions

Tax Accounting for OBBBA International Provisions

- The FASB considers FDII and BEAT to be period costs, and while companies may choose to provide deferred taxes on GILTI basis differences, most have made an accounting policy election to account for the effects of GILTI, as a period cost as well.
- Many of the international components of The Act are effective for tax years beginning after December 31, 2025. Accordingly, as period costs, the effect of those changes would generally be reported when effective.
- There may be examples, however, in which companies consider the effect of the GILTI or BEAT in their valuation allowance assessment. For example, a company that anticipates GILTI inclusions and (or) FDII benefits in future years' income projections may need to reassess pre-enactment scheduling exercises, and thus previous valuation allowances, within the period of enactment.



The Act

International Provisions

163(j) Changes

- Under current law, CFC inclusions are generally not permitted to be included in a U.S. shareholder's Section 163(j) ATI computation unless a CFC Group election is made under Treas. Reg. 1.163(j)-7.
- Repeals all CFC inclusion adjustments and any portion for Sec. 245A DRDs from being considered in a U.S. shareholder's adjusted taxable income (ATI) limitation computation under Section 163(j).

The Act

International Provisions

CFC changes

- **Permanently extends Section 954(c)(6)'s look through rules for CFCs**
 - Look Through Rule – generally treats dividends, interest, rents, and royalties received by a CFC from related CFCs as income other than foreign personal holding company income to the extent the income is attributable to non-subpart F income or income effectively connected with a U.S. trade or business.
- **Restores the “no downward attribution” rules of Section 958(b)(4)'s constructive ownership rules**
 - This section prevented the attribution of stock ownership from foreign persons to U.S. entities.
 - Since its repeal under TCJA, foreign corporations have been able to be deemed as a CFC despite having no U.S. shareholders with direct or indirect ownership in the foreign corporation, which has led to burdensome compliance obligations.
 - New Section 951B – provides a limited exception where a U.S. person would be subject to tax on a foreign corporation's subpart F income if it would directly or indirectly own more than 50 percent of a foreign corporation if downward attribution were applied.
- **Repeals the one-month deferral election under Section 898 for determining tax years of specified foreign corporations.**
 - Requires that all specified foreign corporations (including the ones that have made the one-month deferral election historically) to adopt the majority U.S. shareholder tax year.

The Act

International Provisions

CFC Inclusion Changes

- **Repeal of Net Deemed Tangible Income Return Requirement**
 - The requirement that net deemed tangible income return be considered in the computation of GILTI, *i.e.*, the 10% return on QBAI. In so doing, the current GILTI regime would be renamed Net CFC Tested Income (NCTI).
- **Modifies the pro-rata share rules for CFC inclusions to consider CFC inclusions for Subpart F and NCTI based on the time period of CFC ownership rather than ownership on the last day of tax year.**
 - Amends the pro-rata share rules of Section 958 to provide that if a foreign corporation is a CFC at any time during a tax year, U.S. shareholders must include in gross income its pro-rata share of the corporation's Subpart F income and NCTI for the tax year.
 - This is a deviation from the general rule that requires a U.S. shareholder of a foreign corporation that is a CFC at any time during any tax year and who owns stock in that foreign corporation on the last day of the tax year to include its pro-rata share of Subpart F income, NCTI (f/k/a GILTI) and Section 956 income, *i.e.*, the "Last Day Rule."
 - The Last Day Rule as applied for Section 956 inclusions still exists despite modifying the pro-rata share rules as it relates to Subpart F income and NCTI inclusions.

04

Scheduling Temporary Differences With OB3 Changes



Example 1 – Base Case – No Changes from OBBBA

BASE CASE - No Changes from OBBBA										
Scheduling of Reversal of Temporary Differences										
	Cumulative 12/31/2024	2025	2026	2027	2028	2029	2030	2031	2032	Indefinite
Taxable temporary differences										
Definite-lived intangibles	(20,000,000)	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	-
Computer Software Purchase	(5,000,000)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000				-
Software Intangibles	(15,000,000)	3,750,000	3,750,000	3,750,000	3,750,000					-
Total taxable temp differences	(40,000,000)	7,250,000	7,250,000	7,250,000	7,250,000	3,500,000	2,500,000	2,500,000	2,500,000	-
Deductible temporary differences										
Deferred revenue	5,000,000	(5,000,000)								-
Bad Debt Reserve	100,000	(100,000)								-
174 Expenditures	18,000,000	(3,600,000)	(3,600,000)	(3,600,000)	(2,400,000)	(2,400,000)	(2,400,000)			-
Capitalized sales commission	2,500,000	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)		(0)
Nonqualified stock options	4,000,000		(800,000)	(800,000)	(800,000)	(800,000)	(800,000)			-
Depreciation	50,000	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)				-
Total deductible temp differences	29,650,000	(9,067,143)	(4,767,143)	(4,767,143)	(3,567,143)	(3,567,143)	(3,557,143)	(357,143)	-	(0)
Taxable income before NOL / (loss)	(10,350,000)	(1,817,143)	2,482,857	2,482,857	3,682,857	(67,143)	(1,057,143)	2,142,857	2,500,000	
NOL carryforward (unltd c/f; 80% TI limitation)	(22,000,000)	0	(1,986,286)	(1,986,286)	(2,946,286)	0	0	(1,714,286)	(2,000,000)	(11,366,857)
NOL carryforward generated		(1,817,143)	0	0	0	(67,143)	(1,057,143)	0	0	(2,941,429)
Federal Taxable Income after NOL	(32,350,000)	(1,817,143)	496,571	496,571	736,571	(67,143)	(1,057,143)	428,571	500,000	
Federal Tax (21%)		0	104,280	104,280	154,680	0	0	90,000	105,000	
RD Credit C/Fwd (limited to 75% of T. I.)	3,000,000	0	(78,210)	(78,210)	(116,010)	0	0	(67,500)	(78,750)	2,581,320
Fed Tax after credit utilization		-	26,070	26,070	38,670	-	-	22,500	26,250	
OPENING	22,000,000									
NOL C\Fwd	-									
NOL Generated	22,000,000									
Tax Effect at 21%	4,620,000									
R&D Credit C/Fwd	3,000,000									
Total tax effect	7,620,000									
BASE										
NOL C\Fwd	11,366,857									
NOL Generated	2,941,429									
Tax Effect at 21%	3,004,740									
R&D Credit C/Fwd	2,581,320									
Total tax effect	5,586,060									

Example 2 – 100% Expensing of 174 Costs

CASE #2 - 100% Expensing of 174 costs										
Scheduling of Reversal of Temporary Differences										
	Cumulative 12/31/2024	2025	2026	2027	2028	2029	2030	2031	2032	Indefinite
Taxable temporary differences										
Definite-lived intangibles	(20,000,000)	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	-
Computer Software Purchase	(5,000,000)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000				-
Software Intangibles	(15,000,000)	3,750,000	3,750,000	3,750,000	3,750,000					-
Total taxable temp differences	(40,000,000)	7,250,000	7,250,000	7,250,000	7,250,000	3,500,000	2,500,000	2,500,000	2,500,000	-
Deductible temporary differences										
Deferred revenue	5,000,000	(5,000,000)								-
Bad Debt Reserve	100,000	(100,000)								-
174 Expenditures	18,000,000	(18,000,000)								-
Capitalized sales commission	2,500,000	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)		(0)
Nonqualified stock options	4,000,000		(800,000)	(800,000)	(800,000)	(800,000)	(800,000)			-
Depreciation	50,000	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)				-
Total deductible temp differences	29,650,000	(23,467,143)	(1,167,143)	(1,167,143)	(1,167,143)	(1,167,143)	(1,157,143)	(357,143)	-	(0)
Taxable income before NOL / (loss)	(10,350,000)	(16,217,143)	6,082,857	6,082,857	6,082,857	2,332,857	1,342,857	2,142,857	2,500,000	
NOL carryforward (unltd c/f; 80% TI limitation)	(22,000,000)	0	(4,866,286)	(4,866,286)	(4,866,286)	(1,866,286)	(1,074,286)	(1,714,286)	(2,000,000)	(746,286)
NOL carryforward generated		(16,217,143)	0	0	0	0	0	0	0	(16,217,143)
Federal Taxable Income after NOL	(32,350,000)	(16,217,143)	1,216,571	1,216,571	1,216,571	466,571	268,571	428,571	500,000	
Federal Tax (21%)		0	255,480	255,480	255,480	97,980	56,400	90,000	105,000	
RD Credit C/Fwd (limited to 75% of T. I.)	3,000,000	0	(191,610)	(191,610)	(191,610)	(73,485)	(42,300)	(67,500)	(78,750)	2,163,135
Fed Tax after credit utilization		-	63,870	63,870	63,870	24,495	14,100	22,500	26,250	

	OPENING		BASE 2	BASE
NOL C\Fwd	22,000,000		NOL C\Fwd	746,286
NOL Generated	-		NOL Generated	16,217,143
NOL Remaining	22,000,000		NOL Remaining	16,963,429
Tax Effect at 21%	4,620,000		Tax Effect at 21%	3,562,320
R&D Credit C/Fwd	3,000,000		R&D Credit C/Fwd	2,163,135
Total tax effect	7,620,000		Total tax effect	5,725,455

Example 3 – 50% Expensing of 174 Costs

CASE #3 - 50% Expensing of 174 costs										
Scheduling of Reversal of Temporary Differences										
	Cumulative 12/31/2024	2025	2026	2027	2028	2029	2030	2031	2032	Indefinite
Taxable temporary differences										
Definite-lived intangibles	(20,000,000)	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	-
Computer Software Purchase	(5,000,000)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000				-
Software Intangibles	(15,000,000)	3,750,000	3,750,000	3,750,000	3,750,000					-
Total taxable temp differences	(40,000,000)	7,250,000	7,250,000	7,250,000	7,250,000	3,500,000	2,500,000	2,500,000	2,500,000	-
Deductible temporary differences										
Deferred revenue	5,000,000	(5,000,000)								-
Bad Debt Reserve	100,000	(100,000)								-
174 Expenditures	18,000,000	(9,000,000)	(9,000,000)							-
Capitalized sales commission	2,500,000	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)		(0)
Nonqualified stock options	4,000,000		(800,000)	(800,000)	(800,000)	(800,000)	(800,000)			-
Depreciation	50,000	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)				-
Total deductible temp differences	29,650,000	(14,467,143)	(10,167,143)	(1,167,143)	(1,167,143)	(1,167,143)	(1,157,143)	(357,143)	-	0
Taxable income before NOL / (loss)	(10,350,000)	(7,217,143)	(2,917,143)	6,082,857	6,082,857	2,332,857	1,342,857	2,142,857	2,500,000	
NOL carryforward (unltd c/f; 80% TI limitation)	(22,000,000)	0	0	(4,866,286)	(4,866,286)	(1,866,286)	(1,074,286)	(1,714,286)	(2,000,000)	(5,612,571)
NOL carryforward generated		(7,217,143)	(2,917,143)	0	0	0	0	0	0	(10,134,286)
Federal Taxable Income after NOL	(32,350,000)	(7,217,143)	(2,917,143)	1,216,571	1,216,571	466,571	268,571	428,571	500,000	
Federal Tax (21%)		0	0	255,480	255,480	97,980	56,400	90,000	105,000	
RD Credit C/Fwd (limited to 75% of T. I.)	3,000,000	0	0	(191,610)	(191,610)	(73,485)	(42,300)	(67,500)	(78,750)	2,354,745
Fed Tax after credit utilization		-	-	63,870	63,870	24,495	14,100	22,500	26,250	
OPENING	22,000,000									
NOL C\Fwd										
NOL Generated	-									
NOL Remaining	22,000,000									
Tax Effect at 21%	4,620,000									
R&D Credit C/Fwd	3,000,000									
Total tax effect	7,620,000									
BASE 3	5,612,571	746,286	11,366,857							
NOL C\Fwd										
NOL Generated	10,134,286	16,217,143	2,941,429							
NOL Remaining	15,746,857	16,963,429	14,308,286							
Tax Effect at 21%	3,306,840	3,562,320	3,004,740							
R&D Credit C/Fwd	2,354,745	2,163,135	2,581,320							
Total tax effect	5,661,585	5,725,455	5,586,060							

Example 1 – Base Case – No Changes from OBBBA

CASE #1 - 163(j) Scheduling of Reversal of Temporary Differences

	Cumulative 12/31/2024	2025	2026	2027	2028	2029	2030	2031	2032	Indefinite	Balances Remaining
Taxable temporary differences											
Definite-lived intangibles	(20,000,000)	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000		-
Computer Software Purchase	(5,000,000)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000					-
Software Intangibles	(15,000,000)	3,750,000	3,750,000	3,750,000	3,750,000						-
Total taxable temp differences	(40,000,000)	7,250,000	7,250,000	7,250,000	7,250,000	3,500,000	2,500,000	2,500,000	2,500,000		-
Deductible temporary differences											
Deferred revenue	5,000,000	(5,000,000)									-
Bad Debt Reserve	100,000	(100,000)									-
174 Expenditures	18,000,000	(3,600,000)	(3,600,000)	(3,600,000)	(2,400,000)	(2,400,000)	(2,400,000)				-
Capitalized sales commission	2,500,000	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)			(0)
Nonqualified stock options	4,000,000		(800,000)	(800,000)	(800,000)	(800,000)	(800,000)				-
Depreciation	50,000	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)					-
Total deductible temp differences	29,650,000	(9,067,143)	(4,767,143)	(4,767,143)	(3,567,143)	(3,567,143)	(3,557,143)	(357,143)	-		(0)
Adj Taxable Income - 163(j) base		1,782,857	6,882,857	6,882,857	6,882,857	3,132,857	2,142,857	2,142,857	2,500,000		-
Int exp / 163(j) C/Fwd (unltd c/f; 30% TI limitation)	5,000,000	(534,857)	(2,064,857)	(2,064,857)	(335,429)						(0)
Taxable Income before NOL / (loss)		(2,352,000)	418,000	418,000	3,347,428	(67,143)	(1,057,143)	2,142,857	2,500,000		
NOL carryforward (unltd c/f; 80% TI limitation)	22,000,000	0	(334,400)	(334,400)	(2,677,943)	0	0	(1,714,286)	(2,000,000)		14,938,972
NOL carryforward generated		(2,352,000)	0	0	0	(67,143)	(1,057,143)	0	0		(3,476,286)
Federal Taxable Income after NOL	16,650,000	(2,352,000)	83,600	83,600	669,486	(67,143)	(1,057,143)	428,571	500,000		
Federal Tax (21%)		0	17,556	17,556	140,592	0	0	90,000	105,000		
RD Credit C/FWD and Utilized	3,000,000	0	(13,167)	(13,167)	(105,444)	0	0	(67,500)	(78,750)		2,721,972
Fed Tax after credit utilization		-	4,389	4,389	35,148	-	-	22,500	26,250		

	OPENING		BASE 163(j)
NOL C\Fwd	22,000,000		14,938,972
NOL Generated	-		3,476,286
NOL Remaining	22,000,000		18,415,257
Tax Effect at 21%	4,620,000		3,867,204
163(j) C\Fwd	5,000,000		0
163(j) Generated	-		-
163(j) Remaining	5,000,000		0
Tax Effect at 21%	1,050,000		0
R&D Credit C/Fwd	3,000,000		2,721,972
Total tax effect	8,670,000		6,589,176

Example 2 – 100% Expensing of 174 Costs

CASE #2 - 163(j) & 100% Expensing of 174 costs Scheduling of Reversal of Temporary Differences

	Cumulative 12/31/2024	2025	2026	2027	2028	2029	2030	2031	2032	Indefinite	Balances Remaining
Taxable temporary differences											
Definite-lived intangibles	(20,000,000)	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000		-
Computer Software Purchase	(5,000,000)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000					-
Software Intangibles	(15,000,000)	3,750,000	3,750,000	3,750,000	3,750,000						-
Total taxable temp differences	(40,000,000)	7,250,000	7,250,000	7,250,000	7,250,000	3,500,000	2,500,000	2,500,000	2,500,000		-
Deductible temporary differences											
Deferred revenue	5,000,000	(5,000,000)									-
Bad Debt Reserve	100,000	(100,000)									-
174 Expenditures	18,000,000	(18,000,000)									-
Capitalized sales commission	2,500,000	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)			(0)
Nonqualified stock options	4,000,000		(800,000)	(800,000)	(800,000)	(800,000)	(800,000)				-
Depreciation	50,000	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)					-
Total deductible temp differences	29,650,000	(23,467,143)	(1,167,143)	(1,167,143)	(1,167,143)	(1,167,143)	(1,157,143)	(357,143)	-		(0)
Adj Taxable Income - 163(j) base		1,782,857	6,882,857	6,882,857	6,882,857	3,132,857	2,142,857	2,142,857	2,500,000		-
Int exp / 163(j) C/Fwd (unltd c/f; 30% TI limit)	5,000,000	(534,857)	(2,064,857)	(2,064,857)	(335,429)						(0)
Taxable Income before NOL / (loss)		(16,752,000)	4,018,000	4,018,000	5,747,428	2,332,857	1,342,857	2,142,857	2,500,000		
NOL carryforward (unltd c/f; 80% TI limit)	22,000,000	0	(3,214,400)	(3,214,400)	(4,597,943)	(1,866,286)	(1,074,286)	(1,714,286)	(2,000,000)		4,318,400
NOL carryforward generated		(16,752,000)	0	0	0	0	0	0	0		(16,752,000)
Federal Taxable Income after NOL	16,650,000	(16,752,000)	803,600	803,600	1,149,486	466,571	268,571	428,571	500,000		
Federal Tax (21%)		0	168,756	168,756	241,392	97,980	56,400	90,000	105,000		
RD Credit C/FWD and Utilized	3,000,000	0	(126,567)	(126,567)	(181,044)	(73,485)	(42,300)	(67,500)	(78,750)		2,303,787
Fed Tax after credit utilization		-	42,189	42,189	60,348	24,495	14,100	22,500	26,250		

	OPENING
NOL C\Fwd	22,000,000
NOL Generated	-
NOL Remaining	22,000,000
Tax Effect at 21%	4,620,000
163(j) C\Fwd	5,000,000
163(j) Generated	-
163(j) Remaining	5,000,000
Tax Effect at 21%	1,050,000
R&D Credit C/Fwd	3,000,000
Total tax effect	8,670,000

	BASE 163(j) [2]	BASE 163(j)
NOL C\Fwd	4,318,400	14,938,972
NOL Generated	16,752,000	3,476,286
NOL Remaining	21,070,400	18,415,257
Tax Eff @. 21%	4,424,784	3,867,204
163(j) C\Fwd	0	0
163(j) Generated	-	-
163(j) Remaining	0	0
Tax Eff @. 21%	0	0
R&D Credit C/Fwd	2,303,787	2,721,972
Total tax effect	6,728,571	6,589,176

Example 3 – 50% Expensing of 174 Costs

CASE #3 - 163(j) & 50% Expensing of 174 costs Scheduling of Reversal of Temporary Differences

	Cumulative 12/31/2024	2025	2026	2027	2028	2029	2030	2031	2032	Indefinite	Balances Remaining
Taxable temporary differences											
Definite-lived intangibles	(20,000,000)	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000		-
Computer Software Purchase	(5,000,000)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000					-
Software Intangibles	(15,000,000)	3,750,000	3,750,000	3,750,000	3,750,000						-
Total taxable temp differences	(40,000,000)	7,250,000	7,250,000	7,250,000	7,250,000	3,500,000	2,500,000	2,500,000	2,500,000		-
Deductible temporary differences											
Deferred revenue	5,000,000	(5,000,000)									-
Bad Debt Reserve	100,000	(100,000)									-
174 Expenditures	18,000,000	(9,000,000)	(9,000,000)								-
Capitalized sales commission	2,500,000	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)	(357,143)			(0)
Nonqualified stock options	4,000,000		(800,000)	(800,000)	(800,000)	(800,000)	(800,000)				-
Depreciation	50,000	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)					-
Total deductible temp differences	29,650,000	(14,467,143)	(10,167,143)	(1,167,143)	(1,167,143)	(1,167,143)	(1,157,143)	(357,143)	-		0
Adj Taxable Income - 163(j) base		1,782,857	6,882,857	6,882,857	6,882,857	3,132,857	2,142,857	2,142,857	2,500,000		-
Int exp / 163(j) C/Fwd (unltd c/f; 30% TI limit)	5,000,000	(534,857)	(2,064,857)	(2,064,857)	(335,429)						(0)
Taxable Income before NOL / (loss)		(7,752,000)	(4,982,000)	4,018,000	5,747,428	2,332,857	1,342,857	2,142,857	2,500,000		
NOL carryforward (unltd c/f; 80% TI limitatic)	22,000,000	0	0	(3,214,400)	(4,597,943)	(1,866,286)	(1,074,286)	(1,714,286)	(2,000,000)		7,532,800
NOL carryforward generated		(7,752,000)	(4,982,000)	0	0	0	0	0	0		(12,734,000)
Federal Taxable Income after NOL	16,650,000	(7,752,000)	(4,982,000)	803,600	1,149,486	466,571	268,571	428,571	500,000		
Federal Tax (21%)		0	0	168,756	241,392	97,980	56,400	90,000	105,000		
RD Credit C/FWD and Utilized	3,000,000	0	0	(126,567)	(181,044)	(73,485)	(42,300)	(67,500)	(78,750)		2,430,354
Fed Tax after credit utilization		-	-	42,189	60,348	24,495	14,100	22,500	26,250		

	OPENING
NOL C\Fwd	22,000,000
NOL Generated	-
NOL Remaining	22,000,000
Tax Effect at 21%	4,620,000
163(j) C\Fwd	5,000,000
163(j) Generated	-
163(j) Remaining	5,000,000
Tax Effect at 21%	1,050,000
R&D Credit C/Fwd	3,000,000
Total tax effect	8,670,000

	BASE 163(j) [3]	BASE 163(j) [2]	BASE 163(j)
NOL C\Fwd	7,532,800	4,318,400	14,938,972
NOL Generated	12,734,000	16,752,000	3,476,286
NOL Remaining	20,266,800	21,070,400	18,415,257
Tax Eff @. 21%	4,256,028	4,424,784	3,867,204
163(j) C\Fwd	0	0	0
163(j) Generated	-	-	-
163(j) Remaining	0	0	0
Tax Eff @. 21%	0	0	0
R&D Credit C/Fwd	2,430,354	2,303,787	2,721,972
Total tax effect	6,686,382	6,728,571	6,589,176

05

Select Energy Credit Provisions



The Act

Clean Energy Credits

Credits Terminated

- **Sections 25E, 30D, and 45W**
 - Clean vehicle credits for new and used vehicles terminated if acquired after 9/30/2025.
- **Section 30C**
 - Alternative fuel vehicle refueling property credit terminated for property placed in service after 6/30/26.
- **Section 25C and 25D**
 - Home credits for energy efficient terminated for property placed in service after 12/31/25.
- Section 179D deduction (not technically a credit) is also terminated for properties that begin construction after June 30, 2026.

The Act

Clean Energy Credits

Section 45Y (Production Tax Credit) / Section 48E (Investment Tax Credit)

- **Solar and wind projects**
 - Projects that begin construction before 7/5/26 must be placed in service by 12/31/30.
 - Projects that begin construction after 7/4/26 must be placed in service by 12/31/27.
- **Other clean energy projects, e.g., biogas, waste energy recovery, eligible for credits longer**
 - Construction must begin before 1/1/34 to claim full credit.
 - Phase down of credit in 2034 and 2035 with complete elimination in 2036.
- **Section 45X – Advanced manufacturing production credit**
 - Wind/solar components produced and sold after 12/31/27 not eligible.
 - Phaseout for critical minerals begins in 2031.
 - Metallurgical coal added to the list.



The Act

Clean Energy Credits

- **Transferability allowed**
 - Cannot transfer to a foreign prohibited/specified entity.
- **Foreign Entities of Concern (FEOC) Limitations**
 - No credit allowed for a project beginning construction after 12/31/25 receiving material assistance from a prohibited foreign entity.
 - Prohibited foreign entities are not allowed a credit for tax years beginning after 7/4/25.



Contact

Forvis Mazars

Phil Laminack

Partner

phil.laminack@us.forvismazars.com

Sanjay Wadhwani

Director

sanjay.wadhwani@us.forvismazars.com

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