GTM

Covering the Bases: OB3 Across Federal, State & International Tax

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1995

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- Middle Market Companies
- PE Firms / Portfolio Companies
- Pre-IPO / Emerging Growth Companies

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- Transitional

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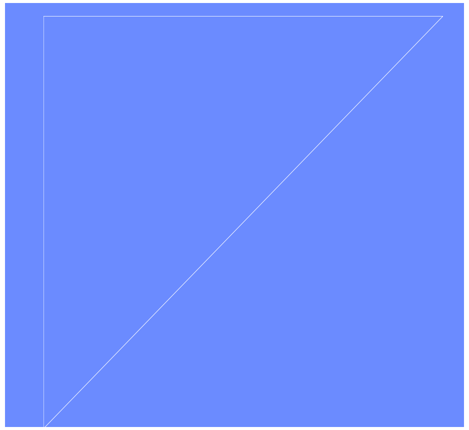

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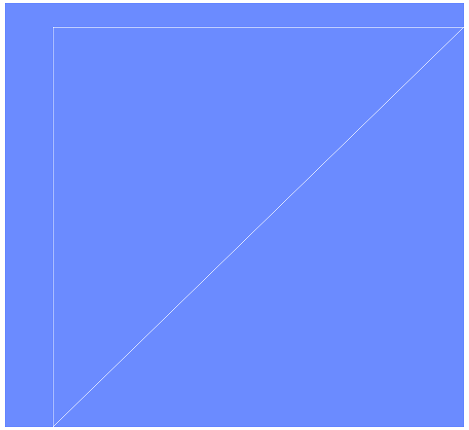

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Research & Experimental Costs

Interest Expense Deductions

Corporate Alternative Minimum Tax (CAMT)

Other Domestic Considerations

International Tax Considerations

State Impact of One Big Beautiful Bill Act (OB3)

Domestic Considerations

Research and Experimental Expenditures

Research and Experimental Expenditures

Domestic R&E Expensing

- Full deduction allowed in the year incurred for domestic R&E expenditures.
- This reverses the Tax Cuts and Jobs Act (TCJA) rule that required 5-year amortization.
- Software development costs are explicitly included.
- Excluded: Land, depreciable property, and mineral exploration costs.

Amortization Option

- Taxpayers may elect to amortize domestic R&E over at least 60 months, starting when benefits are first realized.
- Election must be made by the tax return due date (including extensions) and applies to all future years.
- A 10-year amortization option under Code Sec. 59(e) remains available.

Foreign R&E Expenditures

- Must still be capitalized and amortized over 15 years.
- Applies to research conducted outside the U.S.
- The prior 5-year amortization for domestic R&E is eliminated.

Research and Experimental Expenditures

Research Credit Coordination

- The research credit now applies only to domestic R&E.
- Taxpayers must reduce deductions by the amount of the credit claimed.

Accounting Method Change

- The switch to full expensing is treated as a change in accounting method.
- No IRS approval or adjustment is required—applies on a cut-off basis to expenses after 12/31/2024.

Special Rules for Small Businesses

- Businesses with average gross receipts ≤ $31 million may retroactively apply full expensing to tax years after 12/31/2021.
- Election must be made by July 4, 2026 + requires amended returns for tax years impacted by the election.

Acceleration of Prior-Year Deductions

- For domestic R&E incurred between 2022 and 2024, taxpayers may accelerate remaining amortization:
  - Either fully in one year, or Ratably over two years.
  - Treated as amortization for purposes of 163(j) ATI calculation.

Aspect	Before OBBB Act	After OBBB Act
Domestic R&E Expensing	Amortized over 5 years	Fully deductible in year incurred (starting 2025)
Foreign R&E Amortization	Amortized over 15 years	Still amortized over 15 years
Software Development Costs	Included as R&E but amortized	Explicitly included as deductible R&E
Excluded Expenditures	Land, depreciable property, mineral exploration excluded	Still excluded
Amortization Option (Domestic)	5-year amortization required	Optional 60-month or 10-year amortization
Research Credit Coordination	Applied to both domestic and foreign R&E	Applies only to domestic R&E; deduction reduced by credit
Accounting Method Change	Required IRS approval and adjustments	No IRS approval needed; cut-off basis applies
Small Business Retroactive Election	Not available	Allowed for businesses with ≤ $31M gross receipts (from 2022)
Acceleration of Prior-Year Deductions	Not available	Allowed for 2022–2024 expenditures (1 or 2-year acceleration)

Interest Expense Deduction for Businesses

Interest Expense Deduction for Businesses

EBITDA – Based Limitation Restored

– Effective for tax years beginning after 2024, the limitation on business interest expense is based on EBITDA (earnings before interest, taxes, depreciation, and amortization).

– This replaces the EBIT-based limitation (which excluded depreciation and amortization deductions).

– Applies only prospectively—EBIT rules still apply for 2022–2024.

Exclusion of Certain Foreign Income from ATI

– Starting in 2026, ATI will exclude:
  - Subpart F income
  - GILTI (Global Intangible Low-Taxed Income)
  - CFC tested income
  - Related gross-ups and deductions (e.g., Code Sec. 78, 245A, 250).

– This reduces ATI and may tighten the interest deduction cap for multinationals.

Aspect	Before OBBB Act	After OBBB Act
ATI Calculation Basis	EBIT (excludes depreciation/amortization)	EBITDA (includes depreciation/amortization)
Foreign Income in ATI	Included in ATI	Excluded from ATI (Subpart F, GILTI, CFC income, etc.)
Floor Plan Financing Interest	Limited to motor vehicles	Expanded to include trailers and campers
Interest Capitalization Coordination	Capitalized interest may be treated as business interest	Capitalized interest excluded from business interest; deduction applied first to capitalizable amounts
IRS Authority	Limited guidance	Expanded authority to issue regulations including BEAT coordination

Corporate Alternative Minimum Tax (CAMT)

Corporate Alternative Minimum Tax (CAMT)

Overview

- 15% minimum tax on Adjusted Financial Statement Income (AFSI) for applicable corporations with average annual AFSI exceeding $1 billion over a 3-year testing period.

Applicable Corporation

- Average annual AFSI > $1B over 3-year period (includes all members of controlled group).
- Foreign-parented groups: additional $100M U.S. AFSI threshold.
- Certain entities excluded (S corps, RICs, REITs).

AFSI Computation

- Starts with net income on Applicable Financial Statement (AFS).
- Adjustments for CFCs/partnerships (pro rata share of items), depreciation (tax vs. book), taxes, defined benefit pensions, §174, and AOCI.

Tax Calculation

- Tentative minimum tax = 15% x AFSI, less CAMT Foreign Tax Credit.
- CAMT liability = excess of tentative minimum tax over regular tax + BEAT.
- CAMT credits may offset future regular tax liability.

CAMT Safe Harbor

Purpose

– Allows applicable corporations to report zero CAMT liability without performing the full AFSI computation, if certain threshold tests are met.

Notice 2025-27: Updated Safe Harbor for Applicable Corporation Status

– Increases testing thresholds: $800M AFSI / $80M U.S. AFSI (up from $500M / $50M).

– Aggregation based on statutory rules; simplified AFSI computation for the test.

– Waives estimated tax underpayment penalties attributable to 2025 CAMT liabilities.

Key Safe Harbor Tests (Notices 2023-64 / 2024-10)

– Depreciable property: tax depreciation ≤ AFS depreciation.

– Tax loss carryover: entity has an NOL or net loss on AFS.

– Small CAMT liability: tentative CAMT < regular tax + BEAT.

Practical Considerations

– Elective; must affirmatively claim on the return; re-qualify each tax year.

– Does not relieve obligation to determine applicable corporation status.

Other Domestic Considerations

Bonus Depreciation

- Inauguration date – 100% bonus depreciation
  - Property must be both acquired and placed in service after 1/19/2025
- Nonresidential property (168(n)) – Notice 2026-25
  - Property must be qualified and construction commencing after 1/19/2025 and before 1/1/2029; PIS before 1/1/2031

Charitable Contributions

- 1% Floor
- 10% Limitation
- Carryforward period of 5 years

162(m) Executive Compensation Limitation

- Aggregation rule for public corporations in controlled groups
- 5 additional highest compensated employees included after 12/31/2026
  - American Rescue Plan Act of 2021
  - Not permanent covered employees

Meals and Entertainment

- Beginning in 2026, meals provided to employees for the convenience of the employer will no longer be deductible (§274(o))
  - Taking employee to lunch, late night dinner orders, snacks in the breakroom

Clean energy credits from the Inflation Reduction Act scaled back

Foreign Tax Credit

Foreign Tax Credit

Limited Deductions for GILTI

- The following deductions are allowed:
  - The Section 250(a)(1)(B) deduction for GILTI Inclusions
  - The Section 164(a)(3) deduction for certain taxes imposed on GILTI
  - Directly allocable deductions to GILTI income
- The following are excluded:
  - Interest expense
  - Research and experimentation (R&E) expenses
- Now allocated to U.S. source income
  - Increases the FTC limitation, allowing more foreign taxes to be credited
  - Reduces U.S. taxable income, since those deductions no longer reduce foreign-source income

New sourcing rule for inventory sales

- For FTC purposes, income from the sale of inventory:
  - Produced in the U.S. AND Sold through a foreign office or fixed place of business is treated as foreign-source income, but capped at 50% of the income from the sale

Aspect	Before OBBB Act	After OBBB Act
Deduction Allocation to GILTI	Various deductions including interest and R&E were allocated to GILTI	Only Sec. 250(a)(1)(B), Sec. 164(a)(3), and directly allocable deductions allowed
Interest Expense Allocation	Allocated to GILTI	Allocated to U.S. source income
R&E Expense Allocation	Allocated to GILTI	Allocated to U.S. source income
Effect on FTC Limitation	Lower FTC limit due to more deductions reducing foreign-source income	Higher FTC limit due to fewer deductions reducing foreign-source income
Effect on U.S. Taxable Income	Higher U.S. taxable income	Lower U.S. taxable income
Sourcing of Inventory Sales Income	50% sourced to production, 50% to sale (title passage)	Treated as foreign-source if sold through foreign office or fixed place of business
Cap on Foreign Source Income from Inventory Sales	50% of income by default	Capped at 50% of income from sale
Basis for Attribution to Foreign Source	Based on title passage (Sec. 863(b))	Based on attribution to foreign office (similar to Sec. 864(c)(5))

Deemed Paid Foreign Tax Credit

Deemed Paid FTC Percentage Increased

- U.S. shareholders can claim 90% of foreign taxes paid by a controlled foreign corporation as a deemed paid credit
- The “haircut” on foreign taxes is reduced from 20% to 10%, allowing taxpayers to claim a larger credit

Gross-Up Rule Adjusted

- The gross-up under Code Sec. 78 is revised to reflect the new 90% deemed paid credit percentage

Partial Disallowance of FTC on Previously Taxed Income

- When a U.S. shareholder receives a distribution of previously taxed CFC income, 10% of the foreign taxes associated with that income are disallowed as a credit
- Applies to amounts excluded from gross income under Code Sec.(a) due to prior inclusion under Code Sec. 951A(a).

Foreign Derived Intangible Income and Global Intangible Low-Taxed Income

Foreign Derived Intangible Income and Global Intangible Low-Taxed Income

FDII and GILTI Deductions Renamed and Modified

- FDII becomes Foreign-derived deduction eligible income (FDDEI)
- GILTI becomes Net CFC Tested Income (NCTI)

Simplified Calculation

- FDDEI replaces FDII, eliminating the need for:
  - Deemed Intangible Income (DII)
  - Deemed Tangible Income Return (DTIR)
- Now, the deduction is simply:
  - FDDEI deduction = FDDEI × 33.34%

Modified Definition of Deduction Eligible Income (DEI)

- Excluded from DEI:
  - Income from sales/dispositions of intangible property and depreciable/amortizable/depletable property.
  - Applies to actual and deemed sales (e.g., under Code Sec. 367(d)).
- “Sale” does not include leases, licenses, or exchanges.

Expense allocation changes

- Only non-interest and non-R&E expenses reduce gross DEI

Deduction Type	Before OBBB Act	After OBBB Act	Effective Tax Rate (21% corp. rate)
FDII → FDDEI	21.875%	33.34%	13.9986%
GILTI → NCTI	37.5%	40%	12.6%

GILTI Deduction (Code Sec. 951A)

GILTI Repealed, Replaced by NCTI

- For tax years after December 31, 2025, GILTI is eliminated and replaced with Net CFC Tested Income (NCTI)

Key Definitions Removed

- The following concepts are stricken from the tax code:
  - GILTI
  - Net Deemed Tangible Income Return (NDTIR)
  - Qualified Business Asset Investment (QBAI)

Net Inclusion: Net CFC tested Income (NCTI)

- U.S. shareholders now include NCTI in gross income:
  - NCTI=∑(Pro rata share of tested income)−∑(Pro rata share of tested loss)

Conforming Amendments

- Changes made to:
  - Section 250 (deduction rules)
  - Section 951A (pro rata share and subpart F income)
  - Section 960(d)(2) (deemed-paid FTC)

Aspect	Before OBBB Act	After OBBB Act
Inclusion Type	Global Intangible Low-Taxed Income (GILTI)	Net CFC Tested Income (NCTI)
Key Definition: GILTI	Defined under Code Sec. 951A(b)	Eliminated
Key Definition: NDTIR	Net Deemed Tangible Income Return (10% of QBAI)	Eliminated
Key Definition: QBAI	Qualified Business Asset Investment used in GILTI calculation	Eliminated
Income Calculation Method	GILTI = Tested Income - NDTIR	NCTI = Sum of pro rata share of tested income - Sum of pro rata share of tested loss
Effective Date	GILTI rules apply through tax years ending on or before Dec 31, 2025	NCTI rules apply for tax years beginning after Dec 31, 2025

Base Erosion and Anti-Abuse Tax (BEAT)

Base Erosion and Anti-Abuse Tax (BEAT)

Permanent BEAT Rate

- New permanent rate: 10.5% for tax years beginning after December 31, 2025.
- Higher rate (11.5%) applies to affiliated groups that include:
  - A bank, or
  - A securities dealer registered under Section 15(a) of the Securities Exchange Act of 1934.

Repeal of Post-2025 BEAT Modifications

- Repealed provisions:
  - Scheduled increase to 12.5% BEAT rate.
  - Rule that would have reduced regular tax liability by allowable credits when computing BEAT.
- Impact: Taxpayers can continue to use tax credits to offset BEAT liability.

Other Technical Amendments

- Clarified language for securities dealers to match registration under the Securities Exchange Act.
- Fixed a reporting reference error for qualified derivative payments (from Code Sec. 6038B to 6038A).
- Updated IRS regulatory authority:
  - Removed reference to related party rules.
  - Focused on qualified derivative payment rules and preventing abuse of exceptions.

Aspect	Before OBBB Act	After OBBB Act
Standard BEAT Rate	10% (scheduled to increase to 12.5% after 2025)	10.5% permanently
BEAT Rate for Banks and Securities Dealers	11% (scheduled to increase to 13.5% after 2025)	11.5% permanently
Use of Tax Credits in BEAT Calculation	Credits disallowed post-2025	Credits allowed permanently
Definition of Securities Dealer	Registered securities dealer	Securities dealer registered under Sec. 15(a)
Reporting Reference for Qualified Derivative Payments	Code Sec. 6038B(b)(2)	Code Sec. 6038A(b)(2)
IRS Regulatory Authority	Included related party rules	Focus on qualified derivative payment rules

Look-through, Attribution, and Pro Rata Share Rules for Controlled Foreign Corporations

Look-through, Attribution, and Pro Rata Share Rules for Controlled Foreign Corporations

CFC Look-Through Rule

- Previously temporary; now permanently extended under Code Sec. 954(c)(6).
- Allows payments between CFCs to retain non-subpart F character.

Downward Attribution of Stock Ownership

- Limit restored under Code Sec. 958(b)(4).
- Prevents foreign persons from causing U.S. tax liability via indirect ownership.

Foreign-Controlled U.S. Shareholders

- Now subject to subpart F and NCTI rules.
- Applies when:
  - Ownership exceeds 50% (vote or value).
  - Downward attribution from foreign persons is considered.
- Treats foreign-controlled CFCs as regular CFCs for tax purposes.

Modified Pro Rata Share Rules

- New rule: Inclusion applies if stock owned any day during CFC year.
- Applies to both subpart F and NCTI income.

Transition Rule for Dividends

- Certain dividends paid before or after June 28, 2025 may be excluded from subpart F treatment.
- Applies only if they don’t increase taxable income due to deductions or exclusions.

Aspect	Before OBBB Act	After OBBB Act
CFC Look-Through Rule	Temporary extension, subject to periodic renewal	Made permanent under Code Sec. 954(c)(6)
Downward Attribution of Stock Ownership	Allowed under repeal of Code Sec. 958(b)(4)	Limit restored; downward attribution from foreign persons restricted
Foreign-Controlled U.S. Shareholders	Not subject to subpart F or GILTI/NCTI rules	Subject to subpart F and NCTI rules under new Code Sec. 951B
Pro Rata Share Rules	Inclusion based on ownership on last day of CFC year	Inclusion based on any day of ownership during CFC year; last-day rule removed
Transition Rule for Dividends	Standard dividend treatment under Code Sec. 951(a)(2)(B)	Certain dividends not treated as dividends for pre-amendment purposes

Tax Year of Specified Foreign Corporations

Tax Year of Specified Foreign Corporations

Repeal of One-Month Deferral Election

- Old Rule: A specified foreign corporation (SFC) could elect a tax year beginning one month earlier than its majority U.S. shareholder's tax year.
- New Rule: This election is repealed.
  - SFCs must now adopt the same tax year as their majority U.S. shareholder.

Transition Rule

- Applies to SFC tax years beginning after November 30, 2025.
- The first required year ends on the same date as the majority U.S. shareholder's year.
- The change is treated as:
  - Initiated by the corporation, and
  - Made with the Secretary's consent.

IRS Guidance Required

- Treasury must issue rules for allocating foreign taxes paid or accrued:
  - In the transition year, and In the following year.

Aspect	Before OBBB Act	After OBBB Act
Tax Year Election for Specified Foreign Corporations	SFCs could elect a tax year beginning one month earlier than majority U.S. shareholder's year	Election repealed; SFCs must use majority U.S. shareholder's tax year
Transition Rule	No transition rule; election allowed	First required year ends on same date as majority U.S. shareholder's year; change treated as initiated by corporation and made with Secretary's consent
IRS Guidance on Foreign Tax Allocation	No specific guidance required	IRS must issue guidance for allocating foreign taxes in transition and following year

State Impact of One Big Beautiful Bill Act (OB3)

Major State Impacts

There are three main provisions of OB3 for corporate taxpayers that will create the most opportunity from a federal tax reduction perspective and the most challenges from state compliance perspective.

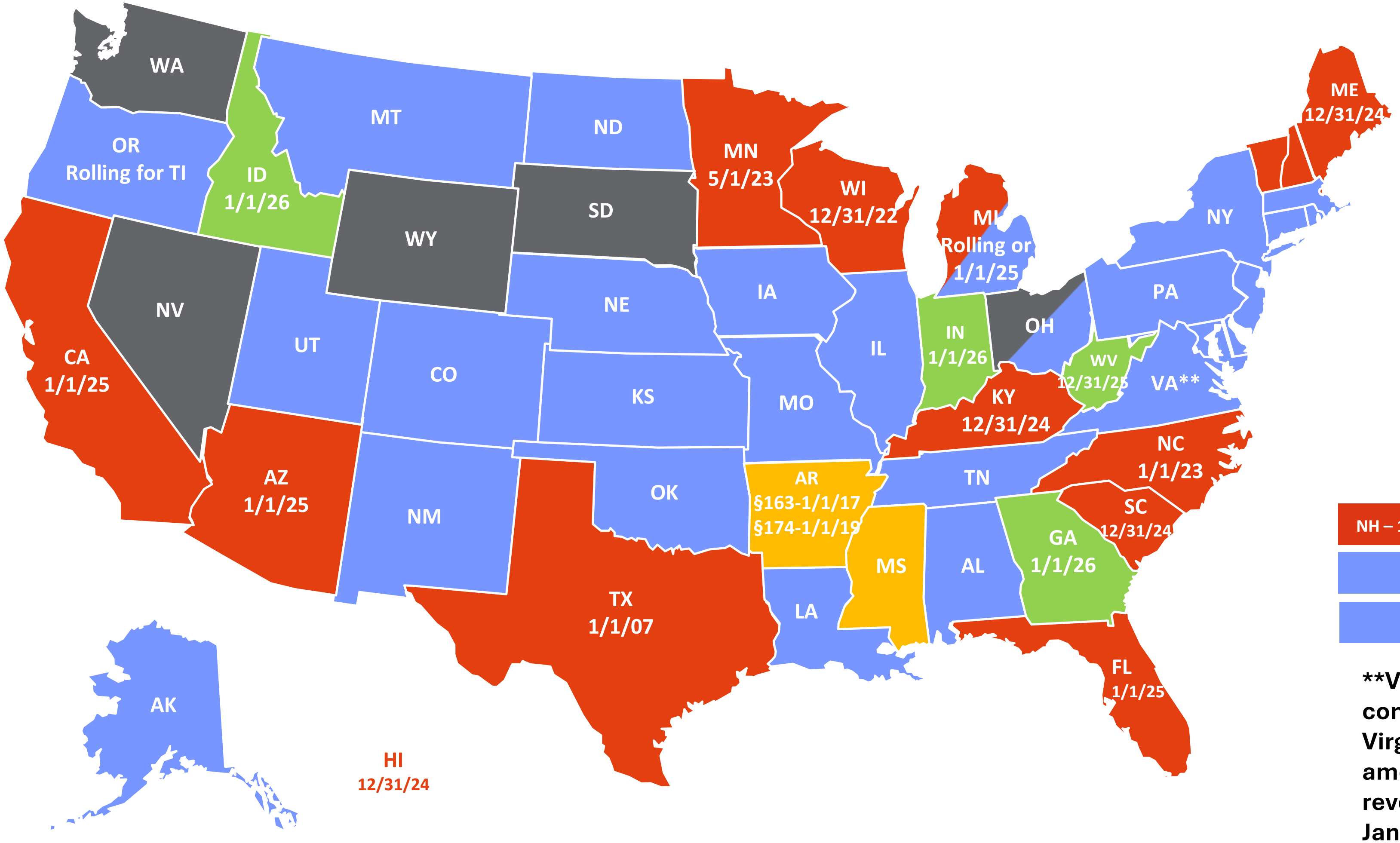
- **Research and Experimental (R&E) expenditures**
  - Treatment of transition rules under OB3, § 70302(f)
    - Will small businesses be able to amend 2022 – 2024 to claim additional R&E
    - Deduction of remaining unamortized domestic R&E from 2022 – 2024 in 2025 (and 2026 if elected to be taken over two years)
  - How will states treat R&E for 2025 and later?
  - How will accelerated deduction (if elected) impact states that decoupled from required amortization?

- **Limitation on business interest expense**
  - Computation of ATI is returning to "EBITDA" method (depreciation, amortization, and depletion are added back to taxable income.)
  - Previously, states either conformed to IRC §163(j) which followed the federal limitation or decoupled from IRC §163(j) which allowed all business interest expense to be deducted.
    - OB3 opens up another option for states.
      - Continue computing ATI using the "EBIT" method (deductions for depreciation, amortization, and depletion remain in taxable income.)
  - Additionally, there is interplay between R&E and IRC §163(j) with R&E amortization being added back when determining ATI.

Major State Impacts

- **Bonus depreciation**
  - OB3 restored the 100% bonus depreciation deduction under IRC §168(k).
  - New 100% bonus depreciation was added under IRC §168(n) for "qualified production property".
  - The biggest challenge for taxpayers is the additional tracking of federal/state differences.
    - It is likely that most states that previously decoupled from bonus depreciation provisions and used pre-bonus MACRS will continue to do so.
    - Some states conformed to the TCJA bonus depreciation which is phasing-out.
      - If states do not conform to OB3 bonus rules, these states will create additional tracking of federal/state differences.
    - Some states implemented their own 100% bonus depreciation rules.
      - Eligible assets may differ from those qualifying federally which creating federal/state modifications.

Current "State" of IRC Conformity



ROLLING

FIXED-DATE (PRE-OB3)

FIXED-DATE (POST-OB3)

SELECTIVE

NO STATE TAX

NH – 12/31/18	VT – 12/31/24	MA	CT
RI	NJ	MD	DC
DE			

**Virginia has paused the state's rolling conformity to the Internal Revenue Code. Virginia will not conform to any federal amendment that increases or decreases state revenue by any amount passed between January 1, 2025 and January 1, 2027. Virginia will resume its use of rolling conformity on January 1, 2027.

State Specific Legislation/Guidance

PENNSYLVANIA

- Rolling Conformity
- The tax relief provided within OB3 would likely create budgetary issues as Pennsylvania is in the process of phasing down its corporate net income tax rate to 4.99% by 2031.
- HB 416 (signed 11/12/25) decoupled from many OB3 provisions
  - Bonus depreciation
    - No 100% bonus depreciation for qualified assets under IRC §168(k).
    - No 100% bonus depreciation for qualified production assets under IRC §168(n).
  - Business interest expense limitation under IRC §163(j)
    - Adjusted taxable income will be computed for PA purposes without adding back depreciation, amortization, and depletion.
    - Corporation Tax Bulletin 2019-03 (issued April 29, 2019, and updated October 12, 2023) if a corporate taxpayer files as part of a federal consolidated group, the IRC Section 163(j) only would apply on a separate company basis if an IRC Section 163(j) limitation was reported on the consolidated federal income tax return.
    - Q&A - Act 45 provides that taxable income as defined in Section 401(3) of the Tax Reform Code of 1971 must be calculated as if Section 163(j) of the Internal Revenue Code applied as it was in effect on December 31, 2024. Does not specifically address Bulletin.

State Specific Legislation/Guidance

PENNSYLVANIA (cont'd)

- Research & Experimental Expenditures (R&E)
  - Add back all R&E (both domestic & foreign) deducted in the tax year for federal income tax purposes (§174, §174A, §59(e), §481), full expense or amortization.
  - Subtraction: Deduct 20% of total unamortized R&E as of 1/1/2025. Taxpayers will subtract 20% of the total for five years beginning with the 2025 tax year.
    - Includes domestic and foreign R&E
    - While this extends the amortization for pre-2025 domestic R&E, it will expedite the amortization of foreign R&E
  - For R&E paid or incurred in 2025 and later, taxpayers can subtract 20% of R&E (domestic & foreign) paid or incurred during the tax year.
    - PA deduction for amounts paid or incurred and deductible under IRC §174A is based on the total amount "deductible" under the section regardless of taxpayer is expensing or electing to amortize federally.
  - The only R&E provisions within OB3 that Pennsylvania will conform to are those related to small businesses.

State Specific Legislation/Guidance

TEXAS

- The Comptroller, in STAR memo 202512012M (issued December 19, 2025), has now determined that not all amounts taken from the federal return used to compute the franchise tax would be tied to the IRC as of January 1, 2007 (conformity date as defined in Texas law.)
- Per the guidance, taxpayers will employ the 2007 IRC when Texas law refers to the IRC or a section of the IRC. *In all other circumstances, taxpayers will compute their franchise tax using amounts determined under the current version of the IRC*.
  - Amounts included in total receipts are based on references to lines of the federal form and not the IRC, therefore the current version of the IRC is used.
  - The memo provides a specific example regarding IRC §951A and its eligibility for the state's exclusion for revenue as a foreign dividend
    - Under TX Sec. 171.1011(c)(1)(B)(ii) taxpayers can subtract from total revenue foreign royalties and foreign dividends, including amounts determined under IRC §78 and §951- §964.
    - Since the statute specifically references the IRC, the 2007 IRC will apply and §951A was not part of the 2007 IRC.

State Specific Legislation/Guidance

TEXAS (cont.)

- The Comptroller issued (in February) revised regulation §3.587 with language in subsections (d)(1)(B)(ii) -(5)(B)(ii) to address the treatment of GILTI and FDII:
  - foreign royalties and foreign dividends, including amounts determined under Internal Revenue Code, §78 (Dividends received from certain foreign corporations by domestic corporations choosing foreign tax credit) or §§951 - 964 (Controlled Foreign Corporations). Subtractions under this clause do not include foreign-derived intangible income (FDII) or global intangible low-taxed income (GILTI), as defined by the Tax Cuts and Jobs Act of 2017, or foreign-derived deduction eligible income (FDDEI) or net controlled foreign corporation tested income (NCTI), as defined by the One Big Beautiful Bill Act of 2025;
  - allowable deductions from Internal Revenue Service Form 1120, Schedule C, to the extent the relating dividend income is included in total revenue. Subtractions under this clause do not include FDII or GILTI deductions, as defined by the Tax Cuts and Jobs Act of 2017, or FDDEI or NCTI deductions, as defined by the One Big Beautiful Bill Act of 2025;
- Comptroller's comments within the preamble to the new regulation clearly state that it is their position that GILTI is not a dividend.

State Specific Legislation/Guidance

TEXAS (cont.)

– Since Texas statutes only refer to depreciation, without reference to the IRC, any depreciation includible in Texas COGS will be the same as federal.

- On the 2026 franchise tax report, taxable entities can include the depreciation reported on its federal income tax return, including bonus depreciation, for each asset qualifying under Sec. 171.1012(c)(6).
- Also on the 2026 franchise tax report, taxpayers can make a "one-time" depreciation adjustment.
  - To be eligible for this adjustment, depreciation must have been included in Texas COGS for a qualifying asset (asset used in production) in prior years and the qualifying asset must not have been sold prior to the end of the accounting year upon which the 2026 franchise tax report is based.
  - Adjustment is the difference between depreciation deducted for federal purposes and Texas purposes (determined for each year depreciation of the qualifying asset was included in Texas COGS.
  - If the depreciation adjustment would reduce margin below zero, any unused net depreciation can be carried forward until exhausted.

State Specific Legislation/Guidance

CALIFORNIA

– California made several significant updates to its corporate franchise (income) tax in 2025.

- In October, legislation was enacted that updated the state's conformity date with the IRC to January 1, 2025.
- HOWEVER, there are very few provisions within the Tax Cuts and Jobs Act and the One Big Beautiful Bill Act to which California conforms.
  - Most of the federal/state differences that existed under California's prior conformity law will still exist:
    - Business interest limitation under IRC §163(j) will not apply
    - California still does not conform to any MACRS depreciation under IRC §168
    - California does not conform to IRC §951A (GILTI or NCTI)
    - While IRC §174A will not apply, taxpayers will still be able to fully deduct research and experimental expenditures since the state will continue to employ the version of IRC §174 in effect prior to January 1, 2022 (when amortization started under the TCJA).

GTM

Thank you!