

The One Big Beautiful Bill Act and the Financial Reporting Implications for Privately Held Businesses

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The One Big Beautiful Bill Act (OBBBA) was signed into law on July 4, 2025, and includes several tax law changes that directly impact businesses, most of which are effective starting in 2025.

The OBBBA includes several key business provisions, including Capital Investment Incentives (Bonus Depreciation and Section 179), Research and Development (R&D) cost treatment, and Business Interest Expense Limitations.

While private companies continue to assess the respective income tax implications related to the new law, companies subject to financial reporting requirements under U.S. GAAP need to evaluate the potential impacts in accordance with ASC 740, Income Taxes. Corporations are typically the only entity type required to measure and recognize deferred taxes. However, pass-through entities must also be mindful of the OBBBA's impact on financial reporting, especially where entity-based income tax provisions are covered by ASC 740, such as the treatment of pass-through entity taxes (PTET).

As a result of the July 4, 2025 enactment date, companies reporting under U.S. GAAP will be required to remeasure any deferred tax assets and liabilities, utilizing newly enacted changes to tax accounting methods. Companies reporting on a calendar year basis and subject to interim reporting should be mindful that assessing the impacts of the OBBBA will be required starting with their financial reporting for Q3 2025.

Here is a closer examination of the key provisions noted above and their potential financial reporting implications:

1. Bonus Depreciation

- 100% bonus depreciation has been restored for property acquired after January 19, 2025, and extended through 2032.
- Allows full tax write-off of eligible capital expenditures in the year placed in service, which is generally Modified Accelerated Cost Recovery System (MACRS) property with a useful life of less than 20 years.
- Qualified production property—which pertains to newly constructed or qualifying used nonresidential real property integral to agricultural or chemical manufacturing, production, or refining that is not leased property—can take 100% bonus depreciation if constructed between January 20, 2025 through December 31, 2028, and placed in service by December 31, 2030.

2. Section 179 Expensing

- Deduction limit increased to \$2.5 million, with a dollar-for-dollar phase-out threshold starting at \$4.0 million.
- Applies to tangible personal property, off-the-shelf software, and certain qualified improvement property.
- Allows applicable businesses to fully expense most capital purchases, even if bonus depreciation is not used.

Financial Reporting Implications: Utilizing bonus depreciation and accelerated depreciation under Section 179 may create significant temporary basis differences between U.S. GAAP and tax accounting methods, resulting in deferred tax liabilities, which would require remeasurement.

In addition, bonus depreciation and Section 179 may create taxable losses. These net operating losses (NOLs) create deferred tax assets, which must be measured and recognized, subject to potential valuation allowance considerations.

3. Immediate Expensing of R&D Costs

- Reverses the requirement under the Tax Cuts and Jobs Act (TCJA) to amortize R&D over 5 or 15 years. Expenses incurred outside the U.S. are still required to be capitalized and amortized over 15 years.
- Starting with amounts paid or incurred after December 31, 2024, U.S.-based R&D expenses can again be fully deducted.
- Small businesses, generally defined as a business with average annual gross receipts of \$31 million or less for the prior 3 years, can elect to apply the new expensing rule retroactively by amending 2024, 2023, and 2022 tax returns. Note that all businesses are still required to follow the rules in effect prior to the enactment of the OBBBA. Businesses are still required to identify, capitalize, and amortize both U.S. and non-U.S. R&D expenses for tax years beginning prior to January 1, 2025, including tax returns on extensions or not yet filed.
- All businesses with R&D costs can deduct the unamortized costs entirely on their 2025 tax return or spread it evenly on their 2025 and 2026 tax returns.

Financial Reporting Implications: Aligns book and tax treatment for most entities, which may eliminate deferred tax assets previously recognized due to temporary basis differences between U.S. GAAP and prior tax accounting methods. Immediate expensing of R&D costs can also create taxable losses. Again, NOLs create deferred tax assets, which must be measured and recognized, subject to potential valuation allowance considerations.

4. Business Interest Expense Limitation

- For tax years beginning after December 31, 2024, the deduction for business interest expense for certain companies continues to be capped at 30% of adjusted taxable income (ATI).
- The OBBBA permanently defines ATI, removing uncertainty about the inclusion or exclusion of depreciation, amortization, and depletion. This will

result in a higher limitation on the portion of interest that is deductible, while potentially lowering carryforwards.

- The permanent definition of ATI will apply to tax years beginning on or after December 31, 2024, and represents taxable income computed without regard to business interest income or expenses, NOLs, the qualified business income deduction, and depreciation, amortization, or depletion.
- Applies to all businesses except for those meeting the small business exception (average annual gross receipts under \$31 million for the prior 3 years).

Financial Reporting Implications: May lead to decreased carryovers of disallowed interest carryforwards, reducing deferred tax assets, which could impact deferred tax recognition and valuation allowance considerations.

In conclusion, the new tax legislation may have several implications on financial reporting that may be relevant to businesses. Please contact [Raymond Baggeri](#), [Michael Mittiga](#), or your Anchin Relationship Partner to discuss in more detail.