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Based on TO 4402 and 4349 (sidebar)

Abstract: The One Big Beautiful Bill Act (OBBBA) has permanently restored 100% first-year bonus depreciation, offering business owners a powerful way to maximize their tax savings for 2025 and beyond. Under prior law, this tax break was phasing out and scheduled to vanish in 2027. This article provides details. And a sidebar gives a brief look at one retirement plan option business owners can use to save taxes for the business, for themselves and their employees.

Restored 100% bonus depreciation: a valuable year-end tax planning tool

As this year comes to a close, business owners seeking to reduce their taxes for 2025 have more opportunities to do so under the One Big Beautiful Bill Act (OBBBA). One such opportunity is first-year bonus depreciation. It had been scheduled to be only 40% for 2025 (60% for certain long-production assets) and to vanish after 2026. The OBBBA permanently reinstates 100% bonus depreciation for eligible assets acquired and placed in service after January 19, 2025. Acquiring eligible assets and placing them in service by Dec. 31, 2025, could significantly reduce your 2025 tax liability.

Assets eligible for bonus depreciation

Eligible assets include most depreciable personal property, such as:

- Equipment,
- Computer hardware and peripherals,
- Certain vehicles, and
- Commercially available software.

Also eligible is qualified improvement property (QIP), defined as improvements to the interior of a nonresidential building that was already placed in service. QIP doesn't include costs to change the building's internal structural framework (such as enlargement). These costs must generally be depreciated over 39 years.

Unlike Section 179 expensing, which is limited to \$2.5 million for 2025 (up from \$1.25 million before the OBBBA) and subject to a phaseout, the amount of bonus depreciation a taxpayer can claim is generally unlimited. But there are other tax consequences to consider.

Beware of the excess business loss rule

Individual taxpayers who have losses as a sole proprietor or as an owner of a pass-through entity (partnerships, S corporations and, generally, limited liability companies) may inadvertently trigger the excess business loss rule when they claim bonus depreciation. The excess business loss rule allows business losses to offset income from other sources (such as salary, self-employment income, interest, dividends and capital gains) only up to an annual limit. Amounts above that limit are excess business losses. For 2025, this is the excess of aggregate business losses over \$313,000 (\$626,000 for married couples filing jointly).

Excess business losses can't be deducted in the current year and must be carried forward to the following tax year. Such losses can then be deducted under the rules for net operation loss carryforwards. As a result, an individual taxpayer's 100% first-year bonus depreciation deduction can effectively be limited by the excess business loss rule.

Wrapping it up

The permanent restoration of 100% first-year bonus depreciation creates tax-saving opportunities for taxpayers while they expand their business potential. Because every situation is different, it's essential to review your business's circumstances carefully. Consult your tax advisor for help tailoring your growth strategies for 2025 and beyond.

Sidebar:

Before year-end, save taxes by saving for retirement

Tax-favored retirement plans can provide significant savings for small business owners, both by building retirement security and by reducing taxes. Contributions are tax-deductible (or pre-tax, if you're contributing as an employee).

One of the simplest options is a Simplified Employee Pension (SEP) IRA. If you're self-employed, you can contribute up to 20% of your net income to a SEP IRA, with a cap of \$70,000 for the 2025 tax year. If your own corporation employs you, the contribution limit is 25% of your salary, also capped at \$70,000. The tax savings can be substantial.

Other options include 401(k)s, SIMPLE IRAs and defined benefit plans. Depending on your age and income, some of these options might allow you to make even larger contributions. Ask your tax advisor for details.