GEORGIA MANUFACTURING ALLIANCE

CPE Presentation - One Big Beautiful Bill Act (OB3) Updates February 2026

R&D Tax Credits, Cost Segregation, & Georgia Tax Credits

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John W. Hanning, MBA, CCSP

- Founding Principal of Specialty Tax Group (STG)
- Responsible for the technical operations of all practice areas
- ASCSP Certified Cost Segregation Professional, #C0139-10
  - Board President 2019–2021
  - Past President 2021–2023
  - Treasurer 2017–2019, 2023–2025, & 2026–2027
  - Member of Education Committee 2010 – 2015
- 20 years of experience in the cost segregation industry
- Ohio University – Master's MBA
- Ohio Wesleyan University – Economics (BA)

John W. Hanning, MBA, CCSP
Fixed Asset & Cost Seg Specialist
Phone: (949) 836-0418
John.Hanning@specialtytaxgroup.com

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Brian E. Wages, CCIP

- Principal at Specialty Tax Group (STG)
- Responsible for the technical operations of State Statutory Tax Credits and Renewable Energy Tax Credits
- Certified Credits & Incentives Professional (CCIP) through the Institute of Professional of Taxation (IPT)
- 14+ years of experience in the Specialty Tax Services industry
- Expert: Training Credits, Job Creation Tax Credits; Federal Work Opportunity Tax Credit, R&D Tax Credits, Indian Employment Tax Credit, Investment Tax Credit
- The University of Georgia – Business Management (BA)

Brian Wages, CCIP
Tax Credits & Incentives Specialist
Phone: (770) 855-2770
brian.Wages@specialtytaxgroup.com

Jack Sierk, CPA

- Senior Manager at Specialty Tax Group (STG)
- Leads the Research & Development (R&D) Tax Credits practice, overseeing strategy and technical execution
- Certified Public Accountant (CPA)
- 5+ years of experience specializing in R&D Tax Credits and complex incentive programs
- Advises clients on maximizing innovation-based tax benefits and compliance
- The University of Alabama – Accounting & Management

Jack Sierk, CPA
R&D Tax Credit Specialist
Phone: (503) 707-6268
jack.sierk@specialtytaxgroup.com

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Research & Development (R&D) Tax Credit

What is the R&D Tax Credit and its purpose?

The R&D Tax Credit is a federal incentive designed to encourage innovation and product development in companies.

It rewards companies for developing or improving products, manufacturing processes, software, formulae, techniques, or technologies. Companies can typically expect about 8 – 12% of their total qualified research expenditures back as a tax credit.

R&D credits are claimed by filing Form 6765 with a tax return. There is a 3-year statute of limitations to amend for an R&D credit.

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What are Qualified Activities and Costs?

A project qualifies if it aims to create or improve products or processes by addressing scientific or technological uncertainties through a process of experimentation (must meet the four-part test).

Types of costs included:

- **Wages** for research and its direct support and direct supervision
- **Supplies** used in research
- **Contract Research** payments to another person for research
- **Computer Rental** payments for research purposes

Technological in Nature

The activity must fundamentally rely on principles of the physical or biological sciences, engineering or computer science.

Technical Uncertainty

The activity must be intended to discover information to eliminate uncertainty concerning the capability, method or design for developing or improving a product or process.

Process of Experimentation

The activity must include an evaluative process and generally should be capable of identifying and evaluating more than one alternative to achieve a result. This may include modeling, simulation, or a systematic trial and error method.

Permitted Purpose

The activity must relate to a new or improved business component's
Function,
Performance,
Reliability, or
Quality.

How is the credit calculated?

Regular Research Credit

The RRC method allows for a credit of 20% of a company's current year qualified research expenses (QREs) over a base amount.

This approach can be complicated–businesses need the average annual gross receipts for at least the prior four tax years or more, depending on age of the company.

Alternative Simplified Credit (ASC) Method

Unlike the RRC method, the ASC method only looks at QREs over the previous three-year period.

Better for companies without historical records.

State R&D Tax Credits

State Credit Variations

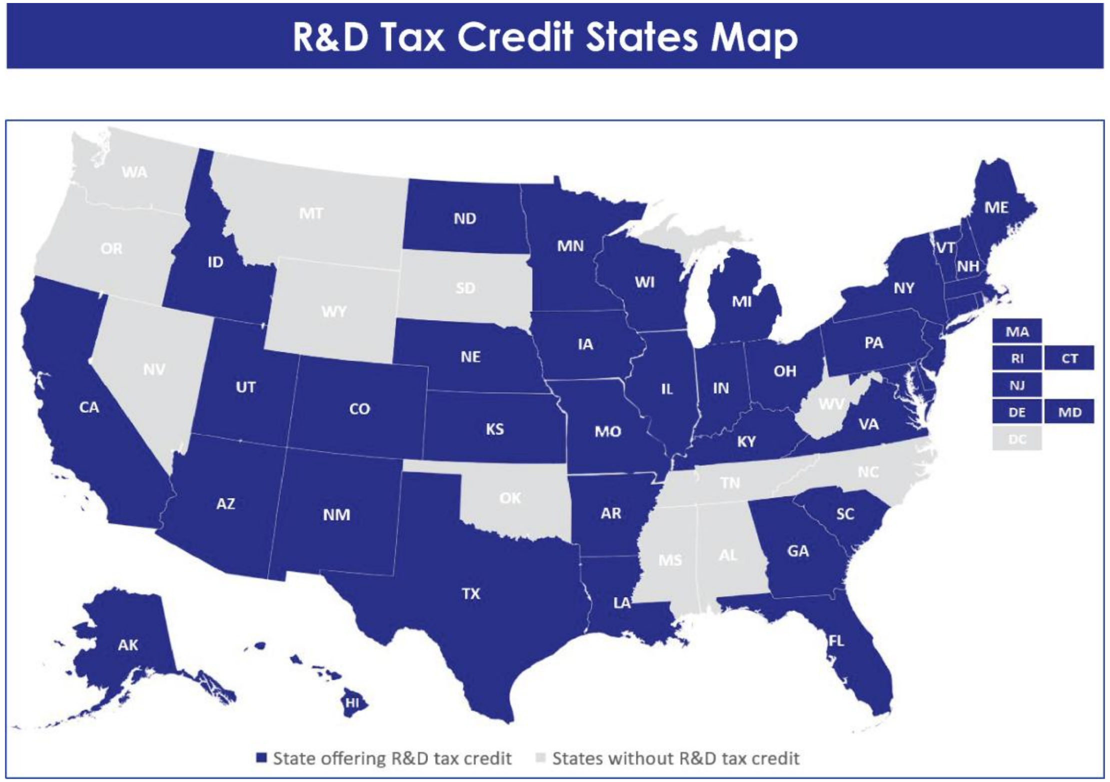
Some states follow the federal calculation closely, while others have their own methods of calculating.

Some states (like FL, MD, MO, PA) have separate applications and requirements

GA allows any company to use its GA R&D tax credit to offset State employee payroll withholding

California currently has legislation that could add a new credit calculation methodology expanding access to the R&D credit and increasing its benefit

Certain states offer refundable components in their credits, differing from the federal non-refundable policy.



I’m not taxable. Why should I claim an R&D credit?

Federal Payroll Tax Offset

Federal R&D credit may offset employer portion of Social Security payroll tax if the company has less than 5 years of gross receipts and under $5 million in gross receipts for the tax year in question.

Georgia State Payroll Tax Credit

Georgia R&D credit can **always** offset state employee payroll tax, representing a significant financial benefit to qualified businesses.

Contemporaneous Record Keeping

Several years of data are required to calculate an R&D credit – the earlier you start, the easier it becomes to collect and keep accurate records.

High-Opportunity Industries and Example Activities

INDUSTRY	EXAMPLE QUALIFIED ACTIVITIES	OPPORTUNITY QUALITY
Manufacturing	New product development, prototypes ("widgets"), production process improvements	High
Software/Technology	SaaS applications, mobile apps, blockchain, ecommerce, FinTech, video games	High
Consumer Products/Food Science	Product formulation, prototyping, bench testing	High
Life Sciences	Pharmaceuticals, clinical trials, lab testing, medical device design	High
Engineering/Architecture/ Construction*	Unique specs/site constraints, energy efficient work, modeling, field trials, new techniques, structural innovation	Medium
Agriculture	Crop and product development (breeding new plant or livestock varieties), process development (irrigation, harvesting, increase yield/reduce waste)	Medium

*These industries often require more of a project-by-project approach and are a murkier/grey area in the tax law. Many court cases involving these industries are not taxpayer-favorable, so a thorough study is needed.

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R&D Study Process

1) Intro Call

A 30-minute introductory call with your client to assess the potential for R&D tax credits.

2) Proposal

If opportunities exist, we will send an engagement letter outlining our services. We work on a contingent fee basis, so there is no cost unless credits are successfully obtained.

3) Data Request

We will provide a detailed data request for the information needed to conduct the study. Key items include wage data, supply details, and contractor information.

4) Analysis

STG will review and analyze the data received.

5) Subject Matter Expert (SME) Call

We will schedule 1–2 calls with a client SME who can provide insight into potential qualified R&D activities performed during the year in question.

6) Calculate and Document

We will calculate the credits and prepare qualitative documentation to substantiate the claim. This deliverable will support the credits claimed.

Transition to capitalization and amortization of R&D expenses under TCJA

TCJA R&D Expense Change

Starting in 2022, companies were required to capitalize R&D expenses instead of deducting them fully for that tax year.

Amortization Periods

R&D expenses must be amortized over 5 years for US expenses and 15 years for offshore expenses.

Years Impacted

This rule was not fixed in time and was in effect for tax years 2022 to 2024.

Taxpayers Impacted

This resulted in untenable tax bills that many couldn't pay – resulting in layoffs, freezing of R&D investments and projects, and bankruptcies.

Legislative Fix: The One Big Beautiful Bill Act (OBBBA)

Restoration of domestic R&D expense deductions and continued foreign expense rules

Legislative Fix by OBBBA

The One Big Beautiful Bill Act passed on July 4th, 2025 restored the ability to fully deduct domestic R&D expenses starting with tax year 2025.

Domestic R&D Expense Deduction

Domestic research and development expenses are now 100% deductible for tax years 2025 and beyond.

Foreign R&D Expense Treatment

Foreign R&D expenses must still be capitalized and amortized over a 15-year period as per current tax rules.

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Options for recovering unamortized R&D expenses from prior years

Full Deduction in 2025

Companies may deduct **100%** of remaining unamortized R&D expenses in the tax year 2025.

Split Deduction over 2025 and 2026

Alternatively, companies can spread the deduction 50% in 2025 and 50% in 2026.

Making the Accounting Method Change

Made on original 2025 return; can file a statement in lieu of a 3115

Small Business Retroactive Amendments

Small businesses (average of gross receipts from 2022 to 2024 is below $31 million) can amend 2022–2024 tax returns to retroactively apply the new rules for R&D expenses.

Cost Segregation

Cost Segregation

Primary Goal: identify all property-related costs that can be depreciated faster than the Real Property designation (5, 7 or 15 year tax life)

- Earlier deductions increase current year cash flow
- The net present value (NPV) create a time value of money benefit
- Saving a dollar today is worth more then saving a dollar in 27.5 or 39 years from now.

Secondary Goal: establish the depreciable tax value for each major building component. This helps with dispositions during future remodels

- Identifying the value for roof, windows, HVAC, ect
- In future years tax preparers (CPAs) can use the cost segregation report to easily identify the value of “retirement loses” or “partial dispositions”

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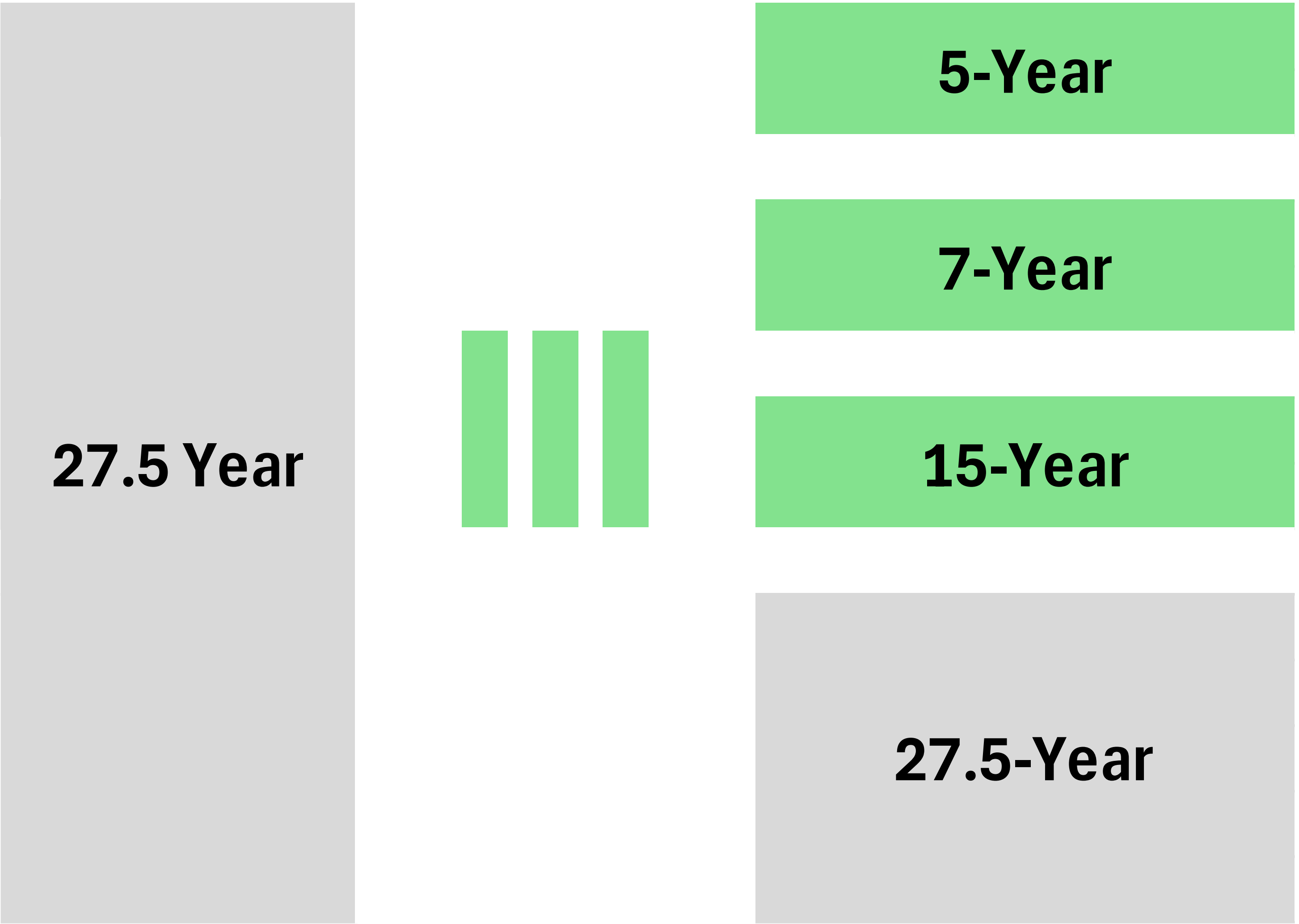
Benefits of Cost Segregation



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Benefits of Cost Segregation - STG

27.5 Year

=

Repairs
Demo Exp
Retirements
Bonus Grouping

5-Year
7-Year
15-Year

27.5-Year

Roof	HVAC
Windows	Ceilings
Doors	Floors
Lighting	Utilities

Section 1250 Real Property (39 or 27.5)

Anything that is permanent or necessary for the operation of the building

- Concrete walls and floors
- Structural steel
- HVAC for human thermal comfort
- Plumbing for HVAC and restrooms
- General building electrical (Non-dedicated to personal property)
- Base building lighting and security lighting
- Doors & hardware
- Drywall
- Roofing
- Windows

Section 1245 Personal Property (Short Life)

- Tangible Personal Property
  - Must not be land or a land improvements
  - Often times these are “movable and reusable”
  - All items of machinery
  - Must not be a structural component
    - Examples: Electrical Conduit and Wiring to Process Equipment, Process Piping, Special Equipment Foundations, Decorative Accent Lighting, Millwork, Carpet/VTC, Blinds

Beneficial Changes under OBBBA (OB3)

- 100% bonus depreciation permanent for most property acquired after Jan. 19, 2025.
- Extends 100% bonus depreciation to a new category of building property typically excluded from bonus depreciation because of 39-year class life – **qualified production property.**
  - Used by the taxpayer as an integral part of a qualified production activity
  - Placed in service in the United States before Jan. 1, 2031
  - Its original use commenced with the taxpayer
  - Construction began after Jan. 19, 2025, and before Jan. 1, 2029
- Waiting on IRS guidance: Newly constructed property PIS in 2025 may be subject to old bonus rules within the TCJA 80% or 60%.
- Significantly reduce taxable income and improve after-tax cash flow

Example – Cost Seg

- $5 million apartment building placed in service in 2025
- Without a Cost Segregation Study the costs are depreciated straight line over 27.5 years.

Purchase Price $5M (excluding land)

Example – Cost Seg

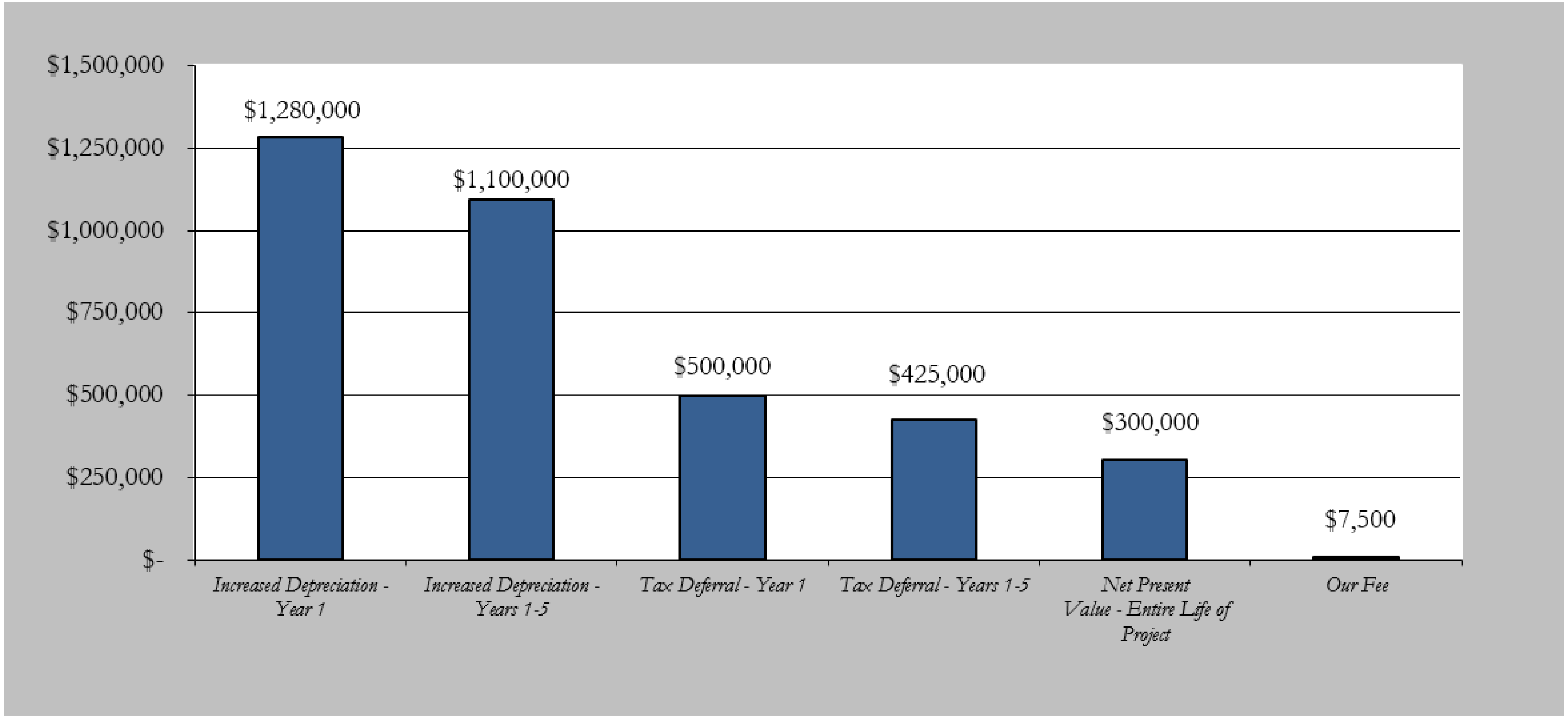
- **Of the $5 Million:**

- $700,000 depreciated over 5 years
- $600,000 depreciated over 15 years
- $3,700,000 depreciated over 27.5 years

- Increased Depreciation Deductions in the first 5 years: $1,100,000
- Short Life assets get 100% bonus (2025 & Beyond)
- Projected NPV Benefits: $300,000

Example – Cost Seg

- Depreciation Deductions by Year - $5M Apt Complex



Georgia Tax Credits

Georgia Retraining Tax Credit (RTC)– How to Qualify

- Companies that train their employees to use newly implemented or upgraded (new releases) software or technology (phone apps) or new equipment can claim the Georgia Retraining Tax Credit.
- The method of learning does not matter (only the content) and includes vendor-led, webinars, peer-to-peer, or even on-the-job self-learning.
- The company must file a Georgia income tax return. The credit offsets up to 50% of the Georgia Corporate income tax liability. If the earned credit exceeds that limit, then the unused credit can be carried forward for up to 5 years and applied to future years' tax liability.

Georgia Retraining Tax Credit – How to Calculate

- Equal to one-half of the direct cost of training and allows for a credit of up to $1,250 per qualified employee per year
- The annual maximum of the credit amounts to $1,250 per employee. Eligible expenses include:
  - Employee wages during retraining
  - Costs of instructors (both internal and external) and teaching materials
  - Reasonable travel expenses including flight, hotel, rental car, gas, and even meals
  - Training room technology upgrade costs

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Georgia Retraining Tax Credit

- Any industry qualifies for this credit.
- Companies other than manual labor companies have constant software & technology upgrades where updates are pushed out automatically through the cloud.
- Calculation is reviewed (online) and approved by the state prior to filing on the tax return.
- STG has a great relationship with the “approver”.
- The credit has been around since 1994.
- The credit can be claimed annually.

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Georgia Jobs Tax Credit – How to Qualify

- Companies within Georgia that are adding headcount (minimum threshold for jobs added year over year starts at 2 FTE's) in the form of expansions, relocations, and even organic growth can qualify for the Georgia JTC in one of two ways:
  - The company must be within a business enterprise (preferred industry) which are manufacturing, warehousing and distribution, logistics, FinTech, software development, processing, telecommunications, tourism, data centers, research and development facilities
  - The company must be located within a special zone such as an Opportunity Zone or Military Zone or within a Tier 1 – Bottom 40 County.
    - Counties and certain census tracts in the state are ranked and placed in economic tiers using the following factors: highest unemployment rate, lowest per capita income; and highest percentage of residents whose incomes are below the poverty level.

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Georgia Jobs Tax Credit – How to Calculate

- Credit value ranges from $1,250 to $4,000 per year for 5 years for every new job created as long as the jobs are maintained.
- Georgia has special benefits (credit can be applied to payroll withholding) for companies in Opportunity Zones, Military Zones, or are located in a Tier 1 county.
- Additional bonuses ($1,250 per job) for companies that increase shipments in Georgia ports (Port Bonus)

TIER	JOB TAX CREDIT $ (FOR 5 YEARS)	MIN. NEW JOBS	CREDIT ALLOWANCES	CARRY FORWARD
1	$4,000*	2	100% of tax liability - excess to withholding up to $3,500 per job	5 years
2	$3,000*	10	100% of tax liability	5 years
3	$1,750*	15	50% of tax liability	5 years
4	$1,250*	25	50% of tax liability	5 years

SPECIAL ZONE	JOB TAX CREDIT $ (FOR 5 YEARS)	MIN. NEW JOBS	CREDIT ALLOWANCES	CARRY FORWARD
MZ/OZ	$3,500	2	100% of tax liability - excess to withholding	5 years
LDCT	$3,500	5	100% of tax liability - excess to withholding	5 years

**Includes $500 Bonus for Joint Development Authority (JDA). The majority of counties are in a multi-county JDA.*

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Georgia Manufacturer's Investment Tax Credit

- Must have operated a **manufacturing or telecommunications** facility in Georgia for at least 3 years and make a minimum investment of $100K
- Percentage of new manufacturing and telecommunications equipment costs eligible for the credit
- Percentage is based on location of facility (1%-5%) based on County Tier Ranking
- Additional percentage available for recycling or pollution control equipment as well as use of Georgia Ports (Port Bonus)



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Contact

Mary Wills
Phone: (404) 403-7589
mary.wills@specialtytaxgroup.com

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