U.S. Manufacturing Update:
2025 Review & 2026: What's to Come?

Key Takeaways for 2025

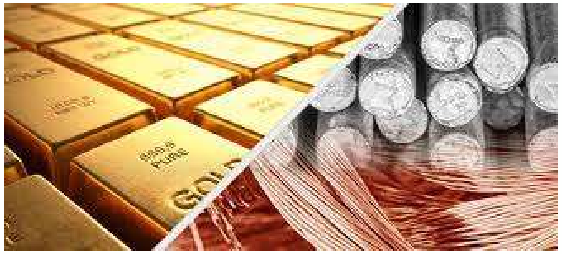
- U.S. manufacturing has been under pressure in 2025
  - Contraction in PMI
  - Constrained Demand
  - Rising Cost Pressures
  - Tariff-driven input uncertainty
- Year End & Forward: Q4 2025 through Q1 2026
  - Remained soft-to-flat
  - Mild recovery is possible if cost pressures moderate/demand stabilizes
- Key levers for resilience
  - Supply chain localization/resilience
  - Selective automation/digital investments
  - Workforce upskilling
  - AI/Scenario based strategic planning

Performance Through Q4 2025

- U.S. economy facing slower growth with moderating consumer demand, cautious capital investments
- Macro forecasts expect GDP growth at approximately 2% moving into 2026
- Industrial production: growing modestly at approximately 1.1% in 2025 and expect approximately 1.6% growth in 2026
- Tariffs impacts: projecting U.S. manufacturing activity to contract at approximately 1% in 2025 and same in 2026 under potential ongoing aggressive tariff scenarios (essentially a shallow global industry recession in 2025 continuing into 2026)

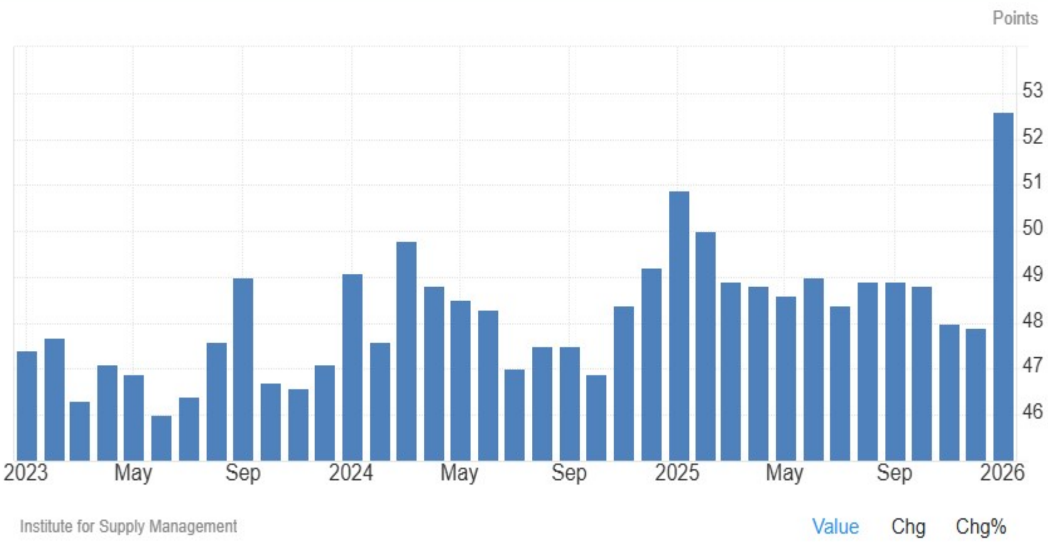
Performance Through Q4 2025 (cont'd)

- **Key Indicators & PMI Trends**
  - ISM Manufacturing PMI was in contraction for over 10 months in 2025 (below bright line of 50)
  - Through December PMI was 47.9, declining from 48.2 in November; still down signalling sector weakness
  - According to ISM's 2025 forecast, manufacturing revenue was expected to grow just 0.1% thru 12/2025, with modest declines in capital expenditures and downward pressure on employment
  - **Leading indicators**
    - New orders and backlog indexes have been weak, noting demand continues to be sluggish. Delayed orders, particularly machinery, metals and semiconductors
  - **Input costs continue to be elevated**
    - Pricing paid for components continues to show pressure, with some slight moderation
    - Tariffs, high costs and weak demand are key challenges

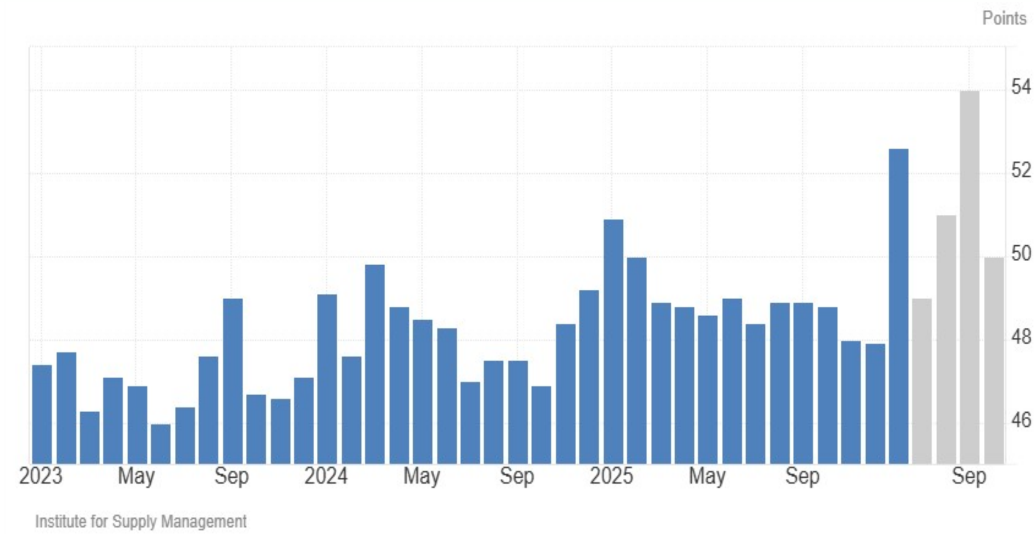


Purchasing Manager's Index (continued)

- **PMI Gauges Health of the Sector Based on Various Factors**



- **Forecast for 12 months (1/26-1/27)**



Purchasing Manager's Index (continued)

MANUFACTURING AT A GLANCE

January 2026

Index	Series Index Jan	Series Index Dec	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
Manufacturing PMI®	52.6	47.9	+4.7	Growing	From Contracting	1
New Orders	57.1	47.4	+9.7	Growing	From Contracting	1
Production	55.9	50.7	+5.2	Growing	Faster	3
Employment	48.1	44.8	+3.3	Contracting	Slower	28
Supplier Deliveries	54.4	50.8	+3.6	Slowing	Faster	2
Inventories	47.6	45.7	+1.9	Contracting	Slower	9
Customers' Inventories	38.7	43.3	-4.6	Too Low	Faster	16
Prices	59.0	58.5	+0.5	Increasing	Faster	16
Backlog of Orders	51.6	45.8	+5.8	Growing	From Contracting	1
New Export Orders	50.2	46.8	+3.4	Growing	From Contracting	1
Imports	50.0	44.6	+5.4	Unchanged	From Contracting	1
OVERALL ECONOMY				Growing	Faster	15
Manufacturing Sector				Growing	From Contracting	1

ISM® *Manufacturing PMI® Report* data is seasonally adjusted for the New Orders, Production, Employment and Inventories indexes.
*Number of months moving in current direction.
Indexes reflect newly released seasonal adjustment factors.

Purchasing Manager's Index (continued)

THE LAST 12 MONTHS

Month	Manufacturing PMI®
Jan 2026	52.6
Dec 2025	47.9
Nov 2025	48.0
Oct 2025	48.8
Sep 2025	48.9
Aug 2025	48.9

Month	Manufacturing PMI®
Jul 2025	48.4
Jun 2025	49.0
May 2025	48.6
Apr 2025	48.8
Mar 2025	48.9
Feb 2025	50.0

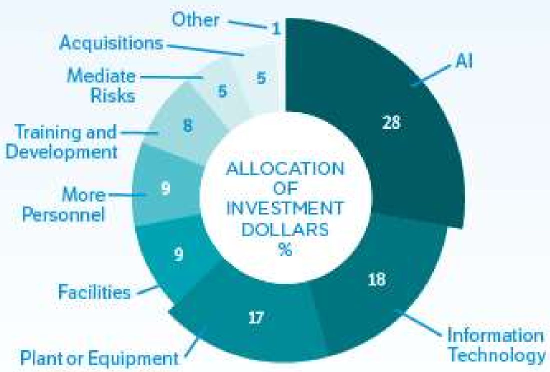
Average for 12 months - 49.1
High - 52.6
Low - 47.9

Capital & Technology Investments

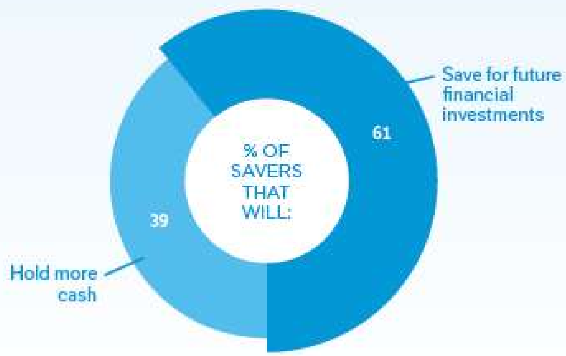
Capital Investment

Following a sharp decline mid-year, investment appetites rebounded to levels seen at the close of 2024.

Artificial intelligence continues to increase its dominance as the leading destination for investment dollars.



The proportion of companies holding cash has dropped eight points since mid-year, with most savers earmarking funds for future investments.



SOME DATA DO NOT TOTAL 100% DUE TO ROUNDING

Key Challenges

Cost pressures and economic uncertainty persist as technology adoption and integration challenges escalate.

ECONOMIC & FINANCIAL CHALLENGES

- Inflation, rising costs of materials, services and inputs, economic uncertainty

OPERATIONAL & TECHNOLOGY CHALLENGES

- Adopting and integrating new technology, data privacy and cybersecurity threats

Capital & Technology Investments (cont'd)

Key Challenges

Cost pressures and economic uncertainty persist as technology adoption and integration challenges escalate.

ECONOMIC & FINANCIAL CHALLENGES
- Inflation, rising costs of materials, services and inputs, economic uncertainty

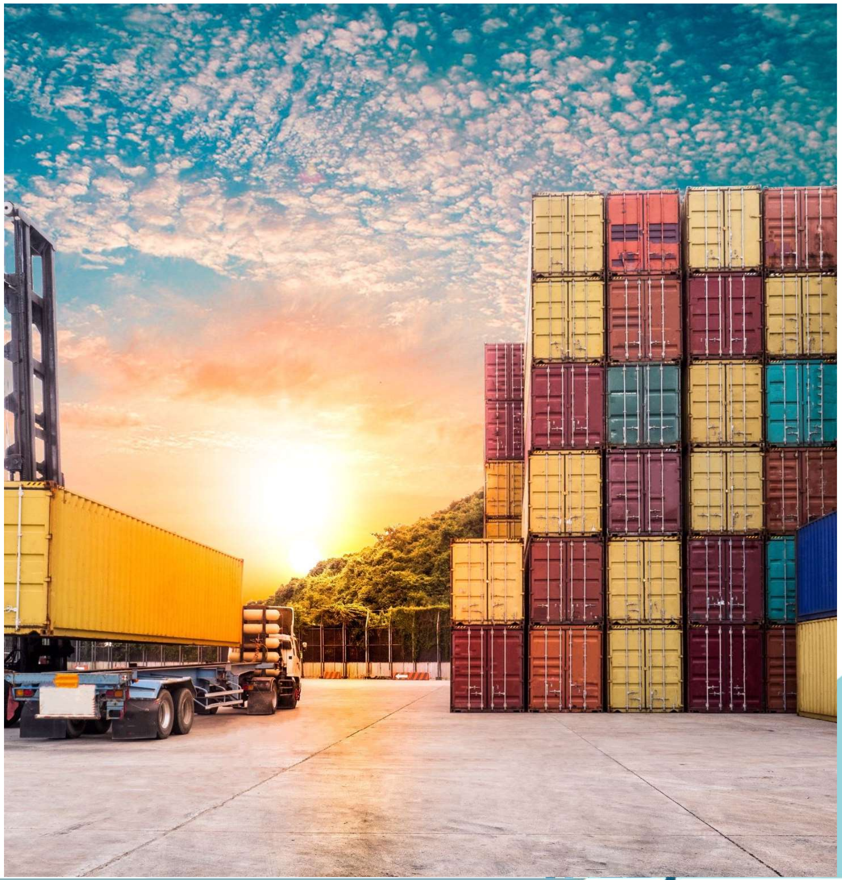
WORKFORCE & TALENT CHALLENGES
- Attracting and hiring qualified talent, retaining employees, cost and availability of benefits

OPERATIONAL & TECHNOLOGY CHALLENGES
- Adopting and integrating new technology, data privacy and cybersecurity threats

MARKET & REGULATORY CHALLENGES
- Impact of tariffs and trade policies, competitive pressure

Performance Through Q4 2025 (cont’d)

- **Supply Chain Resiliency**
  - Geo-political conflicts/instability – fragmenting global SC trade
  - Increased freight rates (domestic, international)
  - Industry leaders wary of economic landscape
    - Concerns over US recession with tariff policies and SC challenges
  - Tariffs increasing impact and uncertainty with future
    - Tariff reengineering: Foreign Trade Zones (FTZ), Enhancing Customs and Tariffs Management
    - Mitigating USMCA impacts to come in 2026
  - Impacts from legislation, OBBBA
- **Inventory & Supply Costs: Visibility & Mitigation**
  - Tier 2/3 visibility, single-sourced components, logistics contracts, supplier concentration
- **Reimaging Supply Chain Networks**
- **Refocus on Foundational Tech Needs Prioritized vs AI Supply Chain Investments**



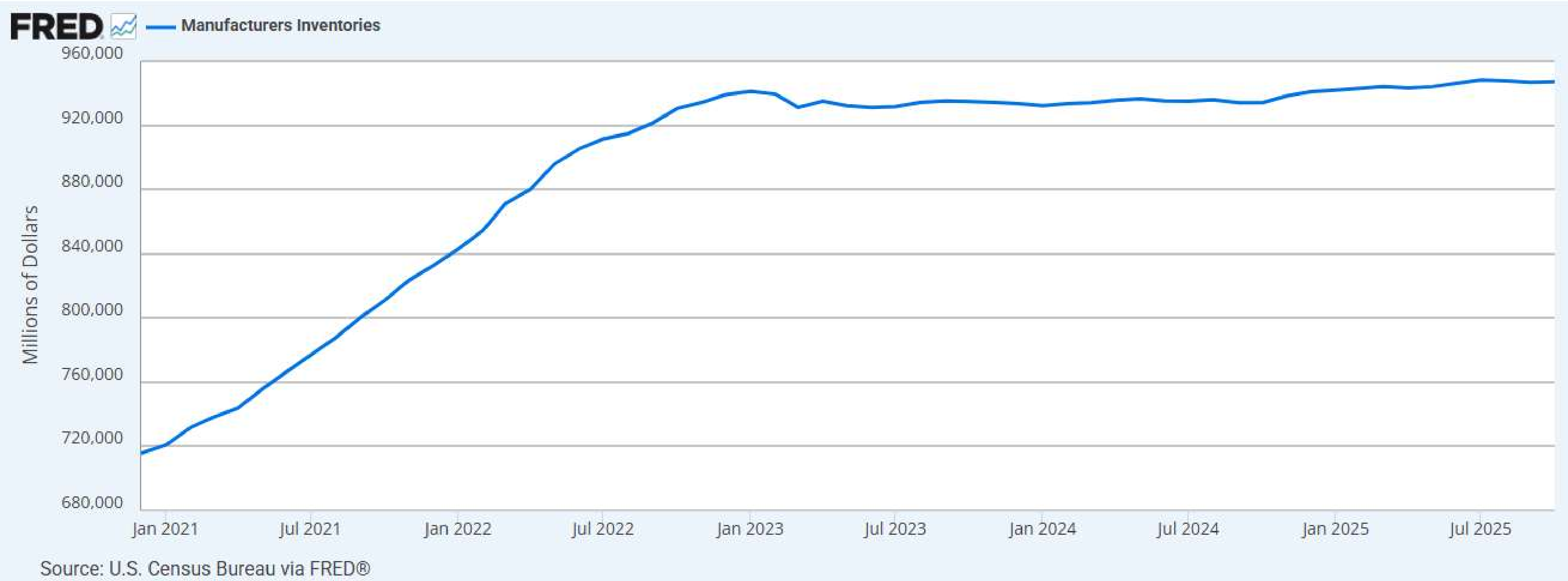
Performance Through Q4 2025 (cont'd)

- **Commodities**
  - Concerns over energy security, supply and sustainability globally
    - Growing emphasis on physical, cyber and enhanced operational protocols to withstand crises
  - Supply chain and trading corridors shifting and rapidly changing economic and tariff environment driving price volatility, more suppliers/market players entering
  - Inflationary pressures on margins, securing supplies of energy/critical metals
    - Energy market shifts with natural gas demand continuing to rise driven by liquified natural gas (LNG) exports & data centers demand
    - EV popularity and much of the incentives have dwindled under latest OBBBA and current political environment in U.S.
  - Geopolitical tensions, along with tariffs, heavily impacting markets nationally and globally

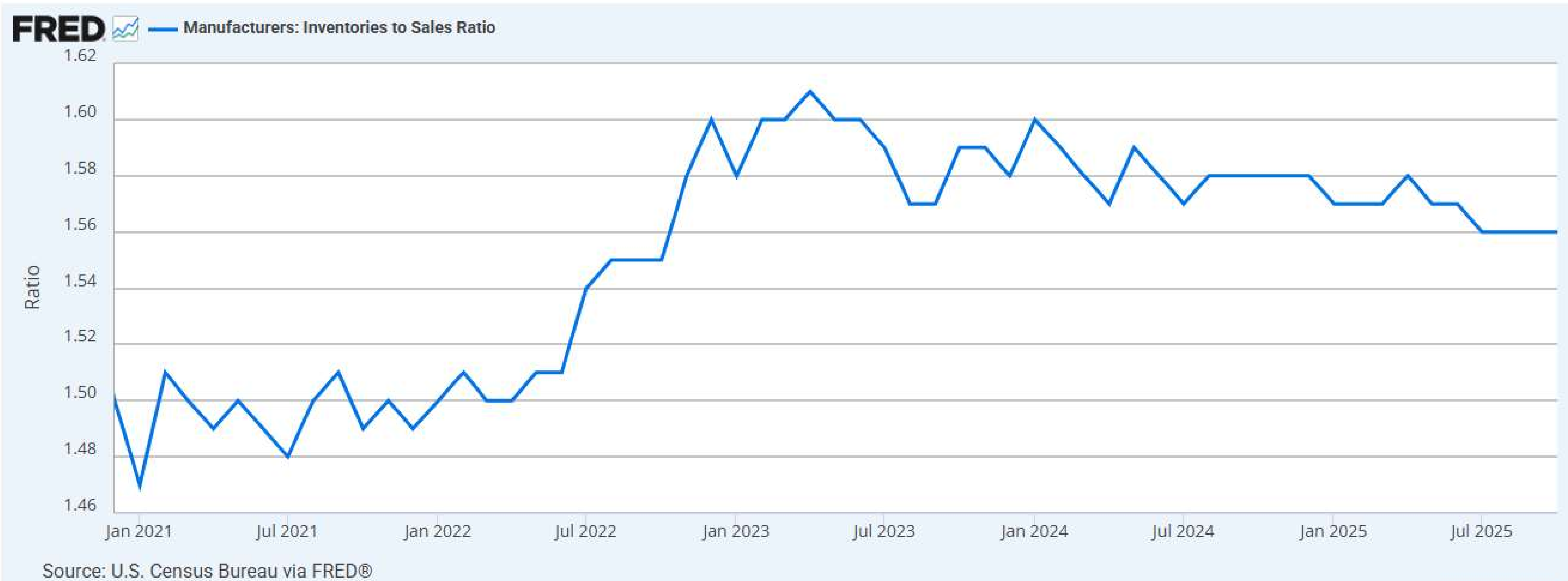
Performance Through Q4 2025 (cont'd)

- **Production, Orders & Inventories**
  - Year-to-date output growth as been modest; forecasts showing deceleration through Q4 2025 with expectations of pick-up in Q1 2026 by 1%
  - Capital goods, machine tools, durable goods demand sees a front-loading effect (companies pulling forward orders ahead of tariffs)
  - Inventories demand/stocking has been mixed: rising in certain instances based on country dependence against supply chain disruptions/tariffs and others winding down amid weaker demand
    - Risk concern alleviated with improved delivery timing amid SC disruptions, overall pushing lower safety stocks (highest levels seen in pandemic)
  - How leaders can respond:
    - Scenario planning with demand-led lens
    - Strategic capital allocation
    - Sourcing strategy informed by risk and policy
    - Workforce planning for volatility vs growth

Manufacturing Inventories- Federal Reserve Economic Data " FRED"



Manufacturers: Inventories to Sales Ratio



Performance Through Q4 2025 (cont'd)

- **Technology, Workforce & Structural Shifts**
  - AI, automation, Industry 5.0 & robotics
    - Ongoing adoption of predictive maintenance, AI-driven scenario planning and quality control, "dark factory" ambitions gaining momentum
    - Industry 5.0: stronger focus on human-centric mfg, sustainability & cybersecurity
  - Digitalization & smart factories
    - Use of IoT (internet of things), real-time data analytics, generative AI tools to optimize scheduling, demand planning and operations
  - Workforce challenges: ongoing skills gap, aging workforce, need for training/upskilling
    - Partnerships with technical schools, apprenticeships, AR/VR training/simulation
  - Reshoring, nearshoring, supply chain resilience
    - Geopolitical risk, tariff volatility, logistics disruptions/issues at ports
  - Sustainability, ESG, regulatory pressures
    - Environmental compliance, energy efficiencies, stakeholder pressure

Performance Through Q4 2025 (cont'd)

- **Risks, Headwinds & Constraints**
  - Cost/pricing pressures & ongoing inflationary impacts driving down margins
  - Demand weakness impacting reluctance to move forward on capital investments/scaling back expansion plans
  - Interest rates and financing constraints
    - Financial institutions wary under current market conditions to be as generous in lending, increasing collateral requirements
    - Rates continue to be high; another 25 basis points drop in Q4
  - Logistics, supply chain disruptions and bottlenecks continue to struggle
  - Regulatory and compliance burdens (environment, trade, safety, etc.)
  - Talent constraints and adoption lags
    - Technical skills gaps slowing adoption of newer technologies/limiting realization of digital transformation benefits

Performance Through Q4 2025 (cont'd)

- **IEEPA, Supreme Court, Nearshoring & Understand Your Supply Chain**
  - Tariffs/trade policy volatility
    - Ongoing uncertainty around tariff rates, retaliatory measures, trade policy changes impacting investments and longer-term planning needs (IEEPA Supreme Court, Q1 '26)
    - Preserve refund rights: engage legal counsel to discuss protective CIT complaint
  - Ensure IEEPA Tariffs Are Documented Appropriately
    - U.S. Duty drawback, 19 CFR Part 191 (duty refunds)
    - Filing protests (Post Summary Corrections – PSC): PSC should pursue first
  - Consider Impacts of Contracts
    - Refunds will be received by importer of record (check contracts for addressing tariffs refunds and/or adjustments)
  - Understand Your Options: What Can You Currently Do?
    - File a protest
    - File a lawsuit
    - File an extension for entry liquidation
  - "Replacement" Tariffs, Anticipating Potential Implementation

Tariffs Updates 2025

New Tariff Requirements for 2025

Send questions to:
traderemedy@cbp.dhs.gov
Updated 8/20/2025
CBP Publication No. 5117-0825

Through Executive Orders and Proclamations, the President has imposed new tariffs on goods imported into the United States pursuant to the International Emergency Economic Powers Act (IEEPA) and Section 232 of the Trade Expansion Act of 1962. **This is a high-level overview. Many exemptions and other detailed provisions may apply that are not summarized below.** For complete information, visit the CBP.gov website using the QR code below.

Autos, Auto Parts
As of May 3: 25%

Section 232: 25% on passenger vehicles and light trucks and auto parts of all countries, except UK and USMCA. See below for unstacking.

Copper
As of August 1: 50%

Section 232: 50% on imports of semi-finished copper products and intensive copper derivative products of all countries. See below for unstacking.

Steel
As of June 4: 50%

Section 232: 50% on imports of steel (including derivatives) of all countries, except UK (25%). See below for unstacking.

Aluminum
As of June 4: 50%

Section 232: 50% on imports of aluminum (including derivatives) of all countries, except Russia (200%) and UK (25%). See below for unstacking.

Brazil
As of August 6: 40%

IEEPA: 40% on all nonexempted goods. Stacks with Reciprocal rate.

Russian Oil (India)
As of August 27: 25%

IEEPA: 25% on all nonexempted goods of India. Stacks with Reciprocal rate.

Canada
As of August 1: 35%, 10% Energy & Potash

IEEPA: 35% on all goods except 10% on energy and potash; exemptions for USMCA-originating goods. See below for unstacking.

Mexico
As of March 7: 25%, 10% Potash

IEEPA: 25% on all goods except 10% on potash and exemptions for USMCA-originating goods. See below for unstacking.

China/Hong Kong
As of March 4: 20%

IEEPA: 20% tariff on all goods. Additional IEEPA reciprocal rate of 10%.

Reciprocal
As of August 7: 10% to 41%

IEEPA: 10% minimum for all countries, then specific rates for all nonexempted goods; 10% to 41% for 95 countries.

De Minimis

As of August 29, de minimis duty free entry is no longer available for goods from any country.

Unstacking Certain Tariffs

1. Products subject to Auto/Auto Parts 232 are not subject to Copper/Aluminum/Steel 232, Reciprocal, Brazil/Russian Oil/Canada/Mexico IEEPA.
   - 2a. Content subject to Section 232 Aluminum/Steel is not subject to Reciprocal, Brazil, Russian Oil, or Canada/Mexico IEEPA.
   - 2b. Content subject to Section 232 Copper is not subject to Reciprocal, Brazil, or Russian Oil.

Products with a mixture of copper, steel, and/or aluminum content continue to be subject to all of the applicable Copper/Steel/Aluminum 232 tariffs.

Tariff Updates (cont'd)

Customs & Trade Compliance: Understanding is critical for effective supply chain planning: Stackable Tariffs Guide

Subject Tariff	232 Auto	Canada IEEPA Border	Mexico IEEPA Border	232 Aluminum	232 Steel	China IEEPA (Fentanyl)	China IEEPA (Reciprocal)	IEEPA (Reciprocal) – Other Countries	Other (MFN, AD/CVD, Section 301, etc.)
232 Auto		NO	NO	NO	NO	YES	NO	NO	YES
Canada IEEPA Border	NO		N/A	NO	NO	N/A	N/A	N/A	YES
Mexico IEEPA Border	NO	N/A		NO	NO	N/A	N/A	N/A	YES
232 Aluminum	NO	NO	NO		YES	YES	NO	NO	YES
232 Steel	NO	NO	NO	YES		YES	NO	NO	YES
China IEEPA (Fentanyl)	YES	N/A	N/A	YES	YES		YES	N/A	YES
China IEEPA (Reciprocal)	NO	N/A	N/A	NO	NO	YES		N/A	YES
IEEPA (Reciprocal) – Other Countries	NO	N/A	N/A	NO	NO	N/A	N/A		YES
Other (MFN, AD/CVD, Section 301, etc.)	YES	YES	YES	YES	YES	YES	YES	YES	

Tariffs & Foreign Trade Zones

- **Tariffs, Inventory Management**
  - Cost containment
    - Rising costs, shrinking marking, increased risk
    - Inventory management: consolidation
    - Understanding true cost of materials (data and inventory systems analyses)
      - Advanced Analytics
  - Adaptive processes
  - Robust warehouse management systems
  - Strategic placement: shifting into key markets to enhance fulfilment speed, reduce SC costs
  - Utilizing FTZs, AI tools to enhance inventory management

Foreign Trade Zones

How can an FTZ mitigate tariff risk?

Internal control of customs entry process → Reduce supply chain risk

Defer

- Pay tariff when product enters U.S. Commerce, rather than when it is imported into country. With a 25% tariff in place, this benefit can be huge for cash flow.

Reduce

- Production Authority* (AKA Inverted Tariff Benefit) allows you to pay tariff on what you sell to U.S. market, rather than on its imported components.

Eliminate

- Eliminate tariff** on scrapped product.
- Eliminate tariff on re-exports out USMCA territory.

https://www.naftz.org/available-zone-storage/

FTZ#176

**Requires individual approval from National FTZ Board; limited to imports with nonprivileged foreign status.*

***Requires individual approval from CBP.*

HLB

Tariffs & Foreign Trade Zones (cont'd)

- **Customs & Trade Compliance**
  - Harmonized Tariff Code: Changes in Tariffs and Exclusions
  - https://www.buckland.com/tariff-guide/
- **Contract Logistics & Warehousing**
  - Continued high demand, outpacing the market availability
  - Warehousing costs continued to increase
  - Logistics networks continue to adapt to the changing needs of e-commerce retail-driven businesses
    - Increasing volumes, faster delivery and need for reliable timelines and escalating cost-to-serve pressures
    - Excess capacity expected to be consumed by demand with warehousing construction slow down pre-OBBBA, seeing uptick Q3/Q4

Forward View: Q4 2025/Q1 2026

Most likely scenario**

- Manufacturing output remains soft/flat Q4 2025, moving strong into early Q1 ‘26
- Demand weaker and cautious capital spending continues, stabilization beginning in Q1 2026 forward; expect slight uptick in Q3 thru Q4 2026
- Cost pressures decline (materials, energy) but don’t fully abate
- PMIs remain close to 48-50 range, gradual shift towards neutral

Upside scenario**

- Tariffs clarity, ease reduces input-cost uncertainty and longer-term planning
- Demand recovery (particularly in export markets) accelerates
- Capex on digitalization and automation support rebound in tech and facilities investments (including OBBBA impacts)

Downside scenario

- Potential further trade relation, tariff escalation
- Continued macro weakness, recession in U.S./globally
- Inflation continues at higher rates, ongoing margin pressures, additional cutbacks
- Supply shocks (e.g. – commodities, energy, geopolitical) further disruption operations

*****Expect most likely scenario to play out with additional expectation of majority/if not all of Upside scenario to come to fruition pending current court cases and global deals on tariffs. USMCA still leaves uncertainty for US with review of this trade agreement pending 2026.***

Forward View: Q4 2025/Q1 2026 (cont’d)

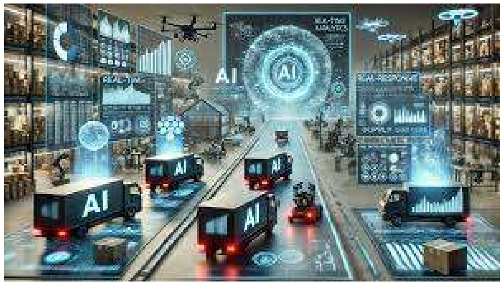
Leading Signals/Indicators to Watch

- New orders, backlog, and forward-looking order components in PMI, sector specific signals
- Capital goods orders (e.g. durable equipment)
- Inventories data analysis, costs, pricing for goods from vendor/port/facilities
    - Including Freight, shipping, lead times and delivery delays
- Hiring and employment trends within the mfg sector
- Investment, capital spending, policy and trade developments

Sector Expectations

- Electronics, semiconductors, electrical equipment: lead recovery, supported by policy (tax incentives), continued demand for AI, data centers and advanced computing
- Aerospace, defense, government contracting strength with backlogs/federal spending
- Automotive, EV, battery supply chain (mixed with consumer demand softening and govt incentives decline)
- Metals/commodity intensive sectors: more volatility, tied to broader industrial demand and construction rebound
- Consumer goods/durable mfg goods: more constrained, tied to consumer demand trend

>Summary: may see a two-speed recovery: leading –edge, tech and defense sectors pulling ahead, while commodity-intensive, lower-margin sectors lag. Service will continue to be higher margin and area when companies can invest in enhancement of offerings.



Forward View: Q4 2025/Q1 2026 (cont'd)

Strategic Imperatives

- Scenario planning & flexibility, meeting customer demand
  - Enhanced quality and sustainability, centralizing functions/operations
- Selective investment in digital, advanced automation, AI and data analytics
- Strengthen supply chain resilience, localization
  - Streamline processes, leverage partnerships to enhance lead times/on-demand
- Workforce development & talent pipelines investment
- Cost management & margin protection
- Policy clarity and taking advantage of incentives
- Risk management, cyber security
- Near-shoring, reshoring
- **Shifts in ABL/Debt Financing: industry shifting guarantees, alleviation on certain covenants, competitive usage fees, adjusting borrowing base thresholds**

One Big Beautiful Bill Act
H.R.1

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- This presentation and related materials are designed only to provide general information regarding the subject matter discussed during this presentation. The statutes, authorities, and other laws cited in this presentation are subject to change.
- This presentation and related materials are not intended to provide tax, accounting, legal, or other professional advice to any specific person or entity. Any advice or opinion regarding the application of the subject matter for a specific person or entity should be provided by a competent professional advisor based on an application of the appropriate law and authorities to the facts and circumstances applicable to that person or entity.

Quick Recap - What you may already know

Tax rates made permanent for tax years beginning after 2025.	Increased standard deduction made permanent. Personal exemption eliminated.	AMT exemption amounts made permanent	Lifetime gift and estate exemption for 2026 set at 15,000,000 and adjusted annually.	Other individual deductions: 2025 through 2028: • Qualified tips • Qualified overtime • Additional deductions for seniors. • Car loan interest deduction
Charitable giving changes for 2026 and after • Nonitemizers: deduction of up to $1,000 ($2,000 MFJ) cash donations • 0.5% floor	Disaster losses now includes stat-declared disasters	Enhanced state and local tax deduction to $40,000.	New itemized deductions overall limitation for the 37% bracket	Mortgage interest still limited to $750,000
Trump accounts	Expanded use of 529 funds	Expanded Child tax credit and Child and dependent care credit	Most “green” and energy-related credits scheduled to phase out including 179D	Sec. 199A made permanent
Interest expense limitation now 30% of taxable income before depreciation and amortization	Excess business loss limitation made permanent	Meals for convenience of employer are non-deductible.	Changes to foreign tax credit utilization, foreign derived income inclusion, GILTI and other international provisions	Updated 1099-NEC and 1099-K reporting requireme

Let’s Make Cents – Five Real-dollar Opportunities

- Immediate expensing of domestic R&E under Section 174A.
- Assets: bonus, Sec. 179, and/or new qualified production property
- Revamped Section 1202 QSBS rules
- Reinstated Qualified Opportunity Zones
- Pass-through Entity Tax

Research and Experimentation Costs

Business key provisions		

Research and experimental (R&E) expensing	Since 2022:
	• Amortization over 5 years for domestic R&E
	• 15 years for foreign R&E costs
		• Allows full expensing for domestic R&E from Jan. 1, 2025.
		• Foreign R&E remains at 15-year amortization.
		• Provides small businesses (less than $31 million in gross receipts) with the option to elect this change retroactively back to 2022 through amended returns.
		• All other businesses can reverse the impact by accelerating any remaining Sec. 174 deductions in one year (2025) or two years (2025 and 2026).
		• Businesses with capitalized R&E expenses can benefit from immediate tax planning:
		    • Evaluate best route to apply retroactive change and receive refunds
		    • Adjust 2025 and/or 2026 estimated tax payments
		    • Capture additional cash flow

What Happens Under Each Scenario

Section 174 Repeal Scenarios			
Business Size (Average Annual Gross Receipts)	**Amended Returns for 2022-2024**	**Accelerated Deduction**	**Deadline/Action Required**
$31M or less	Yes (retroactive option)	n/a	Election within 1 year of enactment
Over $31M	No	Yes (2025 or 2025-26)	Automatic, with 2025 filings

R&E Expenditures – In Plain English

Amended returns	2022	2023	2024	Total
Expense capitalized R&E costs	(900,000)	(750,000)	(850,000)	(2,500,000)
Add Back: Amortization	90,000	255,000	415,000	760,000
Total	(810,000)	(495,000)	(435,000)	(1,740,000)
Tax Impact (29.8% x Total)	**(241,380)**	**(147,510)**	**(129,630)**	**(518,520)**
OR				
Elect to deduct in 2025 (or 2025-2026)				(518,520)

Food for thought:

- Overall tax position: other incentives and deductions applicable to 2025
- Effective tax rate
- Complexity and cost to amend
- IRS processing delays
- Ownership changes
- Extending statute of limitations

Bonus and 179

Business key provisions		
Tax provision	**Pre-OBBBA**	**Enacted OBBBA**
Bonus depreciation	• Allows 80% bonus depreciation for qualified property placed in service in 2023, phasing down by 20 percentage points each year until it sunsets after 2026	• Permanently extends and modifies additional first year depreciation deduction. • Allowance increased to 100% of property acquired and placed in service on or after Jan. 19, 2025. • If there is a written binding contract to acquire the property in effect prior to 1/20/25, the date of the contract governs.
Sec. 179, Enhanced Small Business Expensing	• Sec. 179 allows businesses to expense up to $1,160,000 of qualifying property, with a phase- out threshold beginning at $2,890,000, both indexed for inflation.	• Increases the maximum amount a taxpayer may expense under Sec. 179 to $2,500,000. • Increases the phaseout threshold amount to $4,000,000.

Bonus and 179 – In Plain English

📜 Scenario: A Small Business Buys $2.4 Million in Equipment in 2025

Under Pre-OBBBA Rules:

Bonus Depreciation: Only 60% allowed in 2025

$2.4M × 60% = $1.44M immediate deduction.

Sec. 179 Expensing: Max limit was $1.16M, phase-out starts at $2.89M.

→ Business may not qualify for full Sec. 179 due to phase-out.

= Total Immediate Deduction: Likely around $1.44M to $1.6M

Under Enacted OBBBA Rules:

Bonus Depreciation: 100% allowed for property placed in service after Jan 19, 2025.

$2.4M × 100% = $2.4M immediate deduction.

Sec. 179 Expensing: Limit increased to $2.5M, phase-out starts at $4M.

→ Entire $2.4M qualifies for full expensing.

= Total Immediate Deduction: $2.4M - the full cost of the equipment.

💰 Tax Savings Difference:

Pre-OBBBA: ~$1.6M deduction
OBBBA: $2.4M deduction
Difference: $800,000 more in deductions:
$168,000 in federal tax savings @ 21%
+
$40,000 state @5% if 179/bonus allowed

Business Provisions – Qualified Production Property

Business key provisions		

Qualified production property "Manufacturing Property"	N/A	• **Qualified Production Property** – Any portion of nonresidential real property used as an integral part of:
		  • Qualified manufacturing
		  • Agricultural or chemical production
		  • Refining of a **qualified product** resulting in substantial transformation
		• **100% bonus depreciation for QPP that**:
		  • Began construction after 1/19/2025 and before 1/1/2029, and
		  • The original qualified production use began with taxpayer, and
		  • Is placed in service before 1/1/2031, and
		  • Is placed in service in the U.S. or its territories.
		
		• Excludes from Qualified Property any portion of the building used for offices, administrative services, sales, research, software, engineering, lodging, or parking.
		• Excludes from Qualified Product: Any food or beverage prepared in the same building as a retail establishment in which it is sold
		• If there is a written binding contract to acquire the property, the date of the contract governs whether the acquisition date requirement is met.
		• Businesses will have to make an election *(to be provided by IRS)*
		• Business must plan to use the QPP in the same manner for at least 10 years
		• Leased property owned by the taxpayer and used by a lessee does not qualify

QPP Checklist – Must Be:

- ❑ Non-residential real property
- ❑ Used in a qualified production activity
- ❑ In the U.S.
- ❑ Construction must begin after Jan. 19, 2025, and before Jan. 1, 2029
- ❑ Placed in service in the U.S. before Jan. 1, 2031
- ❑ Original use of the property must begin with the taxpayer
- ❑ Used by the taxpayer
- ❑ Must be used as an integral part of a qualified production activity, which includes manufacturing, production and refining of qualified products:
  - ❑ Qualified products generally include any tangible personal property but do not include food that is served onsite (i.e., a restaurant does not qualify as QPP
  - ❑ Production includes only agricultural and chemical production
- ❑ Elect to treat the property as QPP

Qualified Small Business Stock

Business key provisions		

Sec. 1202, Qualified small business stock exclusion	• Section 1202 provides for the partial exclusion of gain on the sale of qualified small business stock (QSBS) held for more than five years.
	• For stock acquired after September 27, 2010, the exclusion is 100%;
	• For stock acquired in earlier periods, the exclusion is 50% or 75%, depending on the acquisition date.
		• Applicable to stock issued after July 4, 2025.
		• Modifies the QSBS exclusion to provide a tiered exclusion determined on the years the taxpayer holds the QSBS:
		  • 50% exclusion if held for three years;
		  • 75% exclusion if held for four years; and
		  • 100% exclusion if held for five or more years.
		• Increases eligibility for the exclusion by increasing the eligibility limit on the corporation's aggregate gross assets at the time of issuance from a $50 million limit to a $75 million limit.
		• Increases the applicable dollar limit from $10 to $15 million.
		• Retains the existing qualification requirements for QSBS status.

QSBS – in Plain English

Facts:

1. Date of sale: 12/31/2029
2. Shareholder:
    - Individual (non-corporate)
    - Subject to 20% LTCG + 3.8% NIIT on non-QSBS gains.
3. Company (issuer): Meets QSBS tests for each issuance (2015 and 2025)
4. Sale price: 54M for 3 million shares = $18 per share
5. Stock Basis:
    - 2015 A stock: 2M shares = $2M
    - 2025 B stock, issued 8/1/25: 1M shares = $3M

QSBS – in Plain English

Stock A (2015 stock):

Gain:	$34,000,000: 2 million shares x $18 – 2,000,000 cost basis
1202 Excluded:	$20,000,000 (10× basis 2,000,000)
Taxable:	$14,000,000 at 20% LTCG + NIIT 3.8% → $3,332,000 tax + state

Stock B (2025 stock, 4-year hold)

Gain:	$15,000,000: 1 million shares * $18 – 3,000,000 basis
1202 Exclusion:	$11,250,000: 75% x 15,000,000
Taxable:	$3,750,000 at 28% + NIIT 23.8% → $1,192,500 tax + state

Combined gain:	$49,000,000
Total tax:	$4,524,500
Effective tax rate:	9.23% + state

QSBS – in Plain English

- If it seems like a no-brainer: it is not.

- A few things to consider:
    - Basis is close to zero for most entrepreneurs and 10X basis is 0.
    - Effective tax rate of business and C-corp double tax
    - Cash flow needs (business vs personal)
    - Appetite for purchase of C-corp stock in M&A space
    - State taxation: source of gain, state conformity and PTET deduction

Qualified Opportunity Zones

Business key provisions		

Opportunity Zones (OZs)	• OZs designated under TCJA remain in effect through Dec. 31, 2028.
	• Investors can defer and potentially exclude capital gains by investing in Qualified Opportunity Funds (QOFs) that support development in low-income communities.
		• Establishes a permanent OZ policy.
		• Creates a rolling 10-year OZ designation beginning in 2027.
		• Maintains the OZ designation process and strengthens eligibility requirements.
		• 5-year rolling deferral on capital gains: The new “income recognition” date for investments made in QOFs after Dec. 31, 2026, is the earlier of:
		    • the date the investment is sold or exchanged, or
		    • the date that is five years after the investment in the QOF.
		• Basis step up: 10% after 5 years.
		• Rural Zone QOZ:
		    • The 10% exclusion is increased to 30%.
		    • The “substantial improvement” requirement for qualifying OZ property is reduced from 100% to 50%

QOZ – In Plain English

Date of original gain:	March 1, 2027
Capital gain amount:	$1,000,000 gain (not proceeds) from sale of stock
Tax rate:	20% LTCG +3.8% NIIT + 5.2% state = 29%
Investment:	Entire $1,000,000 invested in a QROF on June 1, 2027
Exit date:	June 1, 2037 (10-year hold) at $1,500,000

	Event	Date:	Amount	Tax
Step 1	Initial Deferral	June 1, 2027	$1,000,000	Tax deferred = $290,000
	During Hold period	2027-2037		Report K-1 income (no special rules)
Step 2	Basis step-up: 30%	March 1, 2032	$ 300,000	Permanent savings = **$87,000**
Step 3	Pay tax on deferred gain*	June 1, 2032	$ 700,000	Tax payment = $203,000
Step 4	Exit	June 1, 2037	$1,500,000	Tax = $0. Permanent savings = **$145,000**
	Effective tax rate	$ 203,000 tax / 1,500,000 proceeds		13.53%

*Tax must be paid with from other sources

Pass-through Entity Tax

Business key provisions		
Pass-through entity tax (PTET) SALT deduction	• Individual SALT deduction capped at $10,000. • 36 states and 1 locality implemented a PTET SALT deduction that is allowed under approved IRS Notice 2020-75.	• Individual SALT deduction is $40,000 for most filers. • No SALT limitation for pass-through entities based on trade or business. • State conformity: Developing Area , varies by state 1. Passthrough entity tax is linked legislatively to the federal cap. 2. Passthrough entity tax is scheduled to sunset at 12/31/25 unless new legislation is enacted. 3. Passthrough entity tax is mandatory regardless of federal cap. • Georgia: PTET is an annual election not tied to federal law.

<u>Example:</u>

Husband and Wife are partners in a law firm, organized as partnership.

Combined income:	$	785,000
State Pass-through entity tax:	$	55,000
Federal benefit of PTET deduction at 37%	$	20,350

SALT Cap of $40,000 can be applied towards property tax.

Individual Provision – SALT Cap

Individual key provisions		
Tax provision	**Pre-OBBBA**	**Enacted OBBBA**

State and local tax (SALT) cap	• $10,000 cap.	• The SALT provision retroactively increases the individual limit:
		  • 2025: from $10,000 to $40,000
		  • 2026: $40,400
		  • 2027-2029: up by 1%
		  • 2030: reverts to $10,000
		• Deduction is also be subject to a 30% phaseout for MAGI greater than $500,000 in 2025, $505,000 in 2026, and similar 1% increases thereafter, but the deduction would not be reduced below $10,000.
		
		• There is no SALT limitation for pass-through entities.

Example

Scenario #1, #2, #3

A couple living in a state with 7% tax rate has a combined annual income of $500,000 and pays $35,000 in state income taxes, $15,000 in property taxes, and $25,000 in mortgage interest. Their total SALT payments amount to $50,000.

#2: Compare to second couple making $600,000 and paying $42,000 in income tax.

#3: Now compare to a third couple making $785,000 and paying $55,000 in state income tax

	#1		#2		#3	
Adjusted Gross Income	**505,000**		**600,000**		**785,000**	
Less Itemized deductions:						
Mortgage interest	**25,000**		**25,000**		**25,000**	
State and Local Taxes:						
State income tax paid	35,000		42,000		55,000	
Property tax	15,000		15,000		15,000	
	50,000		57,000		70,000	
New SALT cap	40,000		40,000		40,000	
30 % Phase-out	(1,500)		(30,000)		(30,000)	2025
SALT deduction allowed	38,500		10,000		10,000	
Itemized deductions	63,500		35,000		35,000	
Less: 2/37th rule	-		-		(1,805)	2026
Itemized deductions allowed	**63,500**		**35,000**		**33,195**	
Taxable income	**441,500**		**565,000**		**751,805**	
Federal income tax	**93,620**		**136,845**		**202,231**	
Increase in income:		(1)->(2)	95,000	(1)->(3)	280,000	
Expected increase in tax at 35%			33,250		98,000	
Actual increase in tax			43,225		108,611	
			45.50%		38.79%	
Increase in income:				(2)->(3)	185,000	
Expected increase in tax at 35%					64,750	
Actual increase in tax					65,386	
					35.34%	

Disclaimer: I realize this is not plain English

Wrap up and Questions?