The Biz Beat Podcast – Episode 12: Tariff Policy Update and New Tax Bill Changes to R&D and Bonus Depreciation

Lee: Welcome back everyone to The Biz Beat by SVA, where we break down what business owners need to know about tax, policy, and the decisions that affect their bottom line. I'm Lee Schwartz, Director of Business Development and Sales, and as always, joined by Eric Trost, tax principal and President, both of us here at SVA Certified Public Accountants. Eric, we got another big, big, big week. You ready to go?

Eric: I am. It's been an exciting week. I haven't slept a wink in a week.

Lee: So let me, let me see those hands. Eric, last week you said, you know, you want to make sure we came back with all of our digits after July 4. You still got them all? All right, some of it's out of, out of frame, and I'll take your word for it.

Eric: Yeah.

Lee: So, as we said, a lot happening. When we recorded last week, the Senate had passed their version of the bill. The final bill had not passed. We'll get into some of the specifics there. But before we do that, and we teased this last week, today, actually, as we're recording this, July 9, would have been the 90 day, I guess the deadline of the 90 day tariff pauses. There's been some developments there. Can you give our audience a quick update on where that's at?

Tariff Policy Update

Eric: Lee, there has been some updates for the tariffs. Let me take you back. There was the, I call it the Declaration of Independence that occurred, where Trump said, Hey, starting now, we're going to have tariffs. And there caused some turmoil. And what Trump did then is say, hey, let's have a 90 day pause before we get into all these tariffs. In some countries, still we're getting special tariffs, like China got their own special tariffs, but otherwise, there was a 90 day pause on numerous tariffs that were going to come through. And as you said, today is that 90th day from his announcement of the pause. So what happens? Did everything kick back in?

Eric: No. What Trump said is, what's being directed now, is that the countries that don't have a trade deal with the US, which is most countries have yet to work out their trade deal. Only Great Britain and Vietnam have come to tentative trade deals with the United States. So for countries that did not, they're receiving a letter, and within that letter is, here's what your new tariffs are going to be starting August 1. So effectively, what he did is gave a reprieve, or an extension of time to work tariffs out until August 1.

Eric: Now there's been a couple other tariffs announced, like another 50% I think, on copper. So that joins a list of metals that come to the United States and have a tariff placed on them. So there are some one-sided tariffs that are going out right now, but for the most part, what we're going to see is come August 1, at least under the current deadline, there's going to be tariffs that are going to apply to many countries, or these countries are going to have to work out a deal prior to August 1.

Lee: Okay, so a lot, there's going to be a lot more to talk about here as we progress, but I like the fact that he's given us a little pause, because there's a lot to talk about in this big bill that just passed. Eric, we talked about, you said Trump wanted to sign that on under the fireworks of July 4 with a b2 bomber flowing, flying overhead, and he got what he wanted.

Eric: He sure did. And I'm, I'm still surprised at how quick he was able to get this through, given the disparate positions within his own party. So I don't know that he did it under the fireworks, but there actually was an air show or a flyover, I should say, not a full air show, but there was a flyover for celebrating, I think signing the bill, and maybe even July 4, they were celebrating as well. So that did all occur. So the bill went into effect, was signed by President Trump on Friday, July 4.

Lee: And Eric, please don't, don't tell anybody. But when we recorded last week, because I was up north, I had to go to my wife's aunt's place, and I was using Starlink, Elon Starlink, which I'm hoping doesn't come back to bite me in some way. It was the only way I was able to get internet connection up there. I didn't have a chance to read a whole lot about this, but this is your this is your area of expertise.

New Tax Bill Changes

Lee: Let's, let's dive into a couple of different aspects of this bill. I think if we can, firstly, like, if you can give us an understanding of what some of these provisions actually mean, and then talk about how businesses can prepare for this and plan for this through the end of the year. And we're going to bite off a couple of these today, and we'll continue biting off more of these as we go. But let's start with bonus depreciation. I know that was a big one here. Can you give us an overview of kind of what that means, just from a super high level, before we get into the specifics of what's in the bill.

Eric: Yeah, I'll do that. I guess I want to take one step back on the overall bill first and then get into that.

Lee: Go for it.

Eric: Within the overall bill, there was a House version and a Senate version. For the most part, it's the Senate version that passed. So if you're looking this up on your own and you're reading about it, there's still relevant information out there, I'll call it recent information, that's no longer relevant. There's a recent information out there on the House bill and the Senate bill that were combined together in a final Senate bill that eventually went to Trump's desk and was passed. So just be careful in what you're looking at, that you've got the right version as you go out and seek information for this on your own. There's also a lot of press about the bill on what it actually does, and I want to address one part of that. There's many parts of it that have sides on I just want to address one part of it right now.

Eric: So, to give people context on what this bill is doing. And the one part I'm going to address is this is a tax cut for the rich. So there is a lot of talking points on, hey, this is a tax cut for the rich, and it's born on the spending cuts that occurred on the other side of the spectrum. I just want to address the tax cuts for the rich ones. And what I want to do is be clear on what this is, because it's a matter of perspective, okay, and depends how you look at if you get a tax cut or not based on where you start.

Eric: And the key here is that the top tax rate currently in 2024 and in 2025 is 37%. That top tax rate has been the same since, actually 2017, when Trump's first tax cut passed. So from 2017 through 2025 that 37% top tax rate has been in place. It was scheduled to go up to 39.6% starting in 2026. So it's been 37% for about eight years. Was going to go to 39.6% from 37%, so up 2.6 percentage points in 2026.

Lee: And So Eric, essentially, that's because the 2017 Tax Cuts and Jobs Act had a lot of these things that we're just going to just going to expire and go back to the way they were. Is that right?

Eric: That's correct. That's a budget trick that you say, Hey, you're going to get a tax cut for a while, then it's going to expire. But somehow it makes it fit into their budget matrix that they're trying to do. So what happened then is, in 2026 if it went up to 39.6% it went up to 39.6% in fact, the top taxpayers would have paid 2.6% more, but have been from 37% to 39.6%. This bill just extends the 37% rate. So permanently, well as permanent as it can be in changing regimes and elections and everything else. These can always change, and they always do. But right now, the 37% rate doesn't expire, and it is in effect for 2026 and so if you say, well, there's a tax cut there, because it was going to be 39.6% and instead it's 37% so hey, there's a tax cut there for the top taxpayers.

Eric: Or you could say, really, it's a no change. It was 37% this year. It's 37% next year. So those tax paying taxpayers, individuals are paying the same as they did in the prior year. It's a matter of perspectives, and I want people to understand that, because there is two ways to look at it. And depending on how you look at it, you can say it's a tax increase, or, I'm sorry, you can say it's a tax cut for the highest individuals, or you can say it's a net neutral. It just depends on what your baseline is. Is your baseline what it was going to be, 39.6%, or is your baseline what it currently is 37%?

Eric: So, it's important to get that out, because there's so much information and it's so politicized that, you know, I want people to understand the background on it, whatever their position is, and whatever they say is fine, but just know where you're coming from, when you hear this information.

Lee: That's, I think that's great context, because you're right that so much of what we hear out there has a lot of spin on it and look, people are going to look at it one of two ways, most likely, but it's, it's good to understand both, both perspectives. Thanks for doing that.

Bonus Depreciation

Lee: But let's talk about bonus depreciation. So get into, if you can, a little bit of what that actually means, and then what's in this bill?

Eric: Yeah, so bonus depreciation is a concept that's been around, actually, since September 11, 2001. We all know what happened then. There was rules put in place back then to keep the economy spurred, and one of them was this concept of bonus depreciation. What bonus depreciation is is an immediate write off for purchasing assets that you otherwise would have to depreciate over a period of time. So if you spend $100 on an asset, it could take you five years to recover that cost against your income, $20 a year for five years to get that $100 deduction off your income. Bonus depreciation allows a certain percentage of that asset to be written off in the year that you buy that asset. So bonus depreciation at 100% would mean you can write off $100 in the year you buy that asset, instead of waiting for a period over five years to depreciate that asset.

Eric: Bonus depreciation had been 100% for a number of years, and in fact, Trump tax cuts in 2017 lowered that bonus depreciate or increase that bonus depreciation from 50% to 100%. So starting in 2017, it's been 100% but that 100% has been phasing out. That's another one of those items that have phased out over time. And it's been going down to 80%, then 60%, then 40% for the current year. That is now back to 100%. So it will be 100% bonus depreciation for 2025. Simply what that means is, in the year 2025 and really there's a date that it starts, and that's after January 19 of 2025. So I'm considering that 2025 full year, but yes, there is a short period there where it doesn't apply.

Eric: But in the year 2025, purchasing an asset means you can write off 100% of that asset, provided it's a qualifying asset. And the qualifying assets are basically your, what we call short life property, and it's simply, for the most part, personal property, what they call tangible personal property, desk chairs, cars, computers, things that you use up in your business quite quickly within, say, a five-to-10-year span. Those are things that would get bonus depreciation on them. What typically doesn't get bonus depreciation is real estate, so long-life property, such as buying a building, that does not get bonus depreciation. There are some exceptions to that, and there is a new exception in the rules for building a manufacturing facility. You can take bonus depreciation on the whole thing. So that is a completely new rule within this new one Big, Beautiful Bill. So, bonus depreciation, old concept, going to 100% starting in 2025 and then add to that, manufacturing facilities get special bonus depreciation that other construction assets do not get, like building construction assets do not get. So those are the new things with bonus depreciation in this new bill.

Lee: And Eric, if you're, it sounds like moving forward, it's, it's relatively straightforward as far as as long as an asset was purchased after January, 19. But what about for anything purchased before then? Are those old rules still in effect, or is there some way to, you know, sort of catch up on those?

Eric: Yeah, those old rules are still in effect for assets purchased prior to then. There is other ways to get write offs under a section called Section 179 that's somewhat related to bonus depreciation, in that it's an immediate write off. But there's more restrictions with respect to Section 179 than there is to bonus depreciation. And then, of course, every state has its own rules, so some states follow bonus depreciation in Section 179 and some don't. Wisconsin is one that follows section 179 but does not follow bonus depreciation. So here's where the planning is involved. Do you use bonus, do you use section 179, depending on the state you're operating in? You could have different answers there.

Lee: Okay. So, and I know we'll be talking about 179 in the future as well. There's a lot, a lot to go over. We can only get into so much here, Eric and there's a whole other topic we want to get into, which is R & D.

Research & Development

Lee: There's a big piece in this bill about R & D, but let's talk real quick about what is R & D, what actually qualifies? Can you give us a real brief overview of companies that either used to or still do qualify for R & D?

Eric: Sure, and the definition of R & D expenses didn't really change with this bill. R & D still means, essentially, you're doing research of a technical nature that is discovering, say, a new product or process, and it's new to you, not necessarily new to the world, and there is a credit for that. So it's an incentive credit that you can have for when you spend on R & D, and it's to try to encourage and then offset some of the costs that go along with R & D.

Eric: Now what happened in 2017 is the R & D rules changed with a forward- looking date of 2022 and those R & D rules changed to say that if you spend money on R & D, yes, you can still get the credit, but the deduction for the amounts you spend on R & D must occur over five years. So again, if you spent $100 in R & D in 2022 coming forward, that deduction was about $20 a year for five years, instead of getting that fully deducted upfront. That did cause a lot of businesses some hardship, because they were spending money on R & D, which is not typically financed, and they were still paying income tax on the dollars that they needed to spend on R & D. So if the company made $100 and spent $100 in R & D, their income statement would look like they made zero, the net income of zero. However, they'd still have a tax liability, because they'd pick up all the income as taxable income, but they'd only deduct $20 in that first year of R & D expenses. So now they have $80 of income, but they don't have any cash, because the cash came in R & D.

Eric: So this is what caused a hardship for companies and it was believed that this rule was going to be changed, even though it was put in place in 2017. I believe this rule is going to be changed prior to it taking effect in 2022. That never happened. And so a fix never came and there had been many bills floated through the House or through the Senate to try to fix that didn't occur. So now it is finally fixed, so to speak, in the one Big, Beautiful Bill. What happens is R & D now is 100% deductible as long as it's domestic R & D. If it's spent overseas, there's still some restricted rules on how you can deduct that. But as long as it's domestic spent R & D, then you can deduct the full amount again, starting in 2025.

Eric: Not only that, the rules have changed for what you can do with your unamortized or un deducted R & D that's accumulated since 2022. So everyone's got from 2022 through 2024 this pile of R & D expenses that was under the previous rule that allowed them to deduct only so much, which means they were storing up those deductions for the future. Those deductions can now be taken in a number of different ways, depending on the size of company you are.

Eric: Small companies that have less than $31 million in sales can go back and essentially amend returns and go get that money back that they paid tax on. Large companies can choose to deduct all that R & D that has yet to be expensed in 2025, or 2025 and 2026. So there's a lot of planning to be done if you have R & D from in the past and when to take those deductions. And you basically have choices, options that can allow you to pick the right time period that is the best time to take those deductions for R & D.

Lee: So Eric, a couple questions here. So if you were a company who, in the last couple years looked at this and said, You know what, with the rules the way they are, I don't think it's really worth it. Now might be a time to re-look at sort of going back and analyzing what you might have been eligible for.

Eric: Yeah, that's right. And so the rules in place were there whether you took the R & D credit or not. So if you had R & D expenses, whether you took the credit or not, you still had to do this addback and deduction over five years, even if you weren't taking the credit. I think what companies did, because R & D is somewhat of a gray area, is looked at it pretty hard and said, Do I really have R & D or not? And they may have said, maybe we have more limited R & D when these rules kicked in. Those companies may say, heck, maybe we should go back and take a look and maybe we have more than we thought. So I think there's planning to be done here on taking a harder look at what your R & D was in those past years, and making sure it's all properly captured.

Lee: Okay. And last piece on this, because you kind of mentioned this, but I think when people think about R & D, they think about a, you know, guy in a white lab coat playing around with Bunsen burners, but like, there's a lot that that's eligible for R & D that is not that, correct?

Eric: Yeah, that's right. I think that if you look at what qualifies for R & D, there's probably some surprising items that companies are taking as R & D that doesn't initially look like it might qualify, because it's not just the guy in the white lab coat. It's developing new processes for clients, and a lot of manufacturers you know, they're asked to make something, they have no idea how they're necessarily going to get it done. They have an idea of, you know, what the final should look like, but they've got to invent or develop a process on how to get that manufacturing done. And so oftentimes, manufacturers see it in just figuring out how to engage with a new client or a client that now has a new product for them.

Lee: Great. Okay, so great overview of a couple of the big provisions in the big bill. I think next week, Eric, I think we've got qualified business income deduction and increasing the cap on the adjustable taxable income.

Eric: It's for interest expense.

Lee: Yeah, right, right. So we've got a couple of things ready to go for next week. Great overview so far. We're going to keep diving into this. So yet again, we're going to, we're going to cut the mailbag question this week. We do have a lot of questions coming in clearly about this bill. Hopefully we've answered some of those today. We will try to get to some of them next week, but we want to make sure we stick to the most important things that you all want to hear about.

Lee: Keep your eyes out. On Tuesday, July 22, we are going to be doing a full hour webinar on this bill. So we're going to be diving into all the aspects. You can get a nice, wide picture of everything that's in this bill, in addition to us diving in every week into a couple of these during the podcast.

Lee: If you found today helpful, please subscribe on Apple Podcast, Spotify or on YouTube, and share the show with someone else in your business network. You can also visit sva.com/bizbeat to sign up for updates and submit your own questions. I promise we will get to some of those at some point in the future. Our first 100 subscribers will be entered into a $100 Amazon gift card drawing.

Lee: And just a reminder, these conversations are meant to keep you informed. They're not meant to be specific advice for your business. If you need that advice, please reach out to us. If you're not already an SVA client, we can talk about how to make you one or reach out to your SVA professional if you have questions about what is in this bill. Thank you again for tuning in. Eric, thanks for all the information, for getting up to speed on this so quickly, and we will see you all next week on The Biz Beat by SVA.