

GAAP Income Tax Issues: Latest Updates

GAAP income tax accounting continues to evolve, and this section brings you current on the issues that matter most for 2025 and 2026. Coverage includes the tax year interest deduction limitation formula and other significant income tax considerations under GAAP. Spanning three chapters for thorough treatment, it's directly relevant to CPAs involved in tax provision work, financial statement preparation, or corporate tax planning. If income tax accounting touches your practice, this section deserves a close read.

CREDIT HOURS 2 | FIELD OF STUDY ACCOUNTING | EXAM QUESTIONS 10

[Start Course ↓](#)[Final Exam Copy ↓](#)

LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Review the tax treatment for domestic research and experimental (R&E) expenditures found in OBBBA of 2025.
- Review how to present the tax benefit from using an NOL on the income statement.
- Recall how to present the adjustment of the deferred tax asset and liability from a change in tax status from S to C corporation.
- Recognize when a state might be able to charge sales tax under the Wayfair decision.
- Identify how to account for the Pass-Through Entity (PTE) Tax under GAAP.
- Recall the rule for deductibility of interest in IRC 163(j).

Copyright Notice

© 2026 Pacific CPE, LP. All rights reserved.

This course and test have been adapted from supplemental material and uses the materials entitled Current Developments - Accounting and Financial Reporting © 2026 Fustolo Publishing LLC. Displayed by permission of the author. All rights reserved.

The materials in this course — including the text, illustrations, exhibits, examples, exam questions, and review questions — are the copyrighted property of Pacific CPE, LP. No portion of this course may be reproduced, stored in a retrieval system, distributed, or transmitted in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise) without the prior written permission of Pacific CPE, LP, except for the personal, non-commercial use of the registered learner.

Pacific CPE, LP grants the registered learner a single-seat, non-transferable license to access this course for the purpose of completing the associated continuing professional education credit. Account credentials may not be shared.

This course is provided "as is" for educational purposes. While Pacific CPE, LP makes a reasonable effort to ensure the content is current and accurate, the materials should not be relied upon as a substitute for professional advice. Pacific CPE, LP disclaims all liability for any error, omission, or loss arising from the use of, or reliance on, the course content.

Publication Date: May 2026

TABLE OF CONTENTS

CHAPTER

01

Section 1 6

1.01 Section II. GAAP Income Tax Issues-2026 And 2025 6

1.02 A. Impact Of The OBBBA Tax Changes For Businesses 6

1.03 B. R&E Costs Under The OBBBA 2025 10

1.04 C. NOL Carryforwards And Deferred Tax Assets..... 12

1.05 D. Higher Interest Rates And The Limitation On Interest Deduction - OBBBA 18

1.06 E. Risk Of Unrecorded Sales Tax Liabilities- Wayfair Decision 22

Test Your Knowledge..... 25

CHAPTER

02

Section 2..... 30

2.01 F. Accounting For The Change To C Corporation..... 30

2.02 G. Accounting For Bonus And Section 179 Depreciation In GAAP Financial Statements 33

2.03 H. Presenting Deferred Tax Assets And Liabilities On The Balance 47

2.04 Sheet 47

Test Your Knowledge..... 49

CHAPTER

03

Section 3..... 54

3.01 I. Accounting And Disclosures For The Pass-Through Entity (PTE) Tax. 54

Test Your Knowledge.....	66
Final Exam Copy	73
Glossary	69
Index	

Section 1

SECTION II. GAAP INCOME TAX ISSUES-2026 AND 2025

Chapter Objective

After completing this section, you should be able to:

- Review the tax treatment for domestic research and experimental (R&E) expenditures found in OBBBA of 2025.
- Review how to present the tax benefit from using an NOL on the income statement.
- Recall how to present the adjustment of the deferred tax asset and liability from a change in tax status from S to C corporation.
- Recognize when a state might be able to charge sales tax under the Wayfair decision.
- Identify how to account for the Pass-Through Entity (PTE) Tax under GAAP.
- Recall the rule for deductibility of interest in IRC 163(j).

A. IMPACT OF THE OBBBA TAX CHANGES FOR BUSINESSES

The 2025 Reconciliation Act, P.L. 119-21, *commonly* known as the *One Big Beautiful Bill Act* (OBBBA), offers significant tax benefits for businesses that will result in a decline in the amount of federal income taxes paid in years 2025 and later as these benefits are permanent.

Examples of some of the tax benefits included:

- 100% Bonus depreciation and higher Section 179 depreciation thresholds
- 100% expensing of qualified production property (QPP)
- Expensing of domestic research and experimental (R&E) expenditures, and
- Restores use of a 30% of EBITDA threshold for interest expense deduction limits under IRC 163(j).

Most, but not all, of these items are permanent extensions of provisions that were in the TCJA that was effective in 2018.

In 2018, the first year in which the TCJA became effective, SEC companies surveyed paid only 9.2% in federal income taxes, with book-tax temporary differences of approximately 11.8% of book income, based on University of Pennsylvania analysis summarized as follows:

Statutory tax rate	21.0%
Book-tax differences and credits	(11.8%)
Effective taxes-paid rate*	<u>9.2%</u>

What this means is that initially the TCJA created significant tax deferrals (11.8% of book income before taxes in 2018) that provided companies with additional cash flow for operations, investment, and overall growth. In the previous example, although the corporate effective tax rate was 21%, companies only paid 9.2% with the remainder 11.8% being deferred and representing book-tax differences that will ultimately reverse.

The challenge with temporary differences is that they ultimately reverse. For example, an entity that receives immediate writeoffs from bonus depreciation in 2018 to 2021, must pay back those benefits in future years, when there is no longer any depreciation remaining for tax purposes. This is the situation in which companies found themselves in starting in 2023 with anticipation of 2027.

The following table illustrates the impact of the accelerated front-loaded writeoffs from the 2017 Tax Act and the reversal in year 2023 and anticipated reversal in 2027 if the OBBBA of 2025 had not been passed.

Effective Tax Rates (Taxes-Paid Rate)- SEC Companies	Tax Cuts and Jobs Act				OBBBA 2025
	2018	2023	2027	2025 and	
	Actual	Actual	Was	Later	
			Expected	Expected	
Statutory tax rate	21.0%	21.0%	21.0%	21.0%	
Book-tax differences and credits	(11.8%)	<u>(3.7%)</u>	<u>(2.1%)</u>	(11.8%)	
Effective taxes-paid rate*	<u>9.2%</u>	<u>17.3%</u>	<u>18.9%</u>	<u>9.2%</u>	

*: % taxes paid based on book income

Source: University of Pennsylvania as modified by the Author

Notice that starting in 2023, the book-tax temporary differences dropped to only 3.7% of book income, and will further decline to 2.1% in 2027. The reduction in the course-tax differences was fueled by reversals of the tax benefits from the TCJA, many of which expired starting in year 2022 through 2027. The following table summarizes the larger items; namely the phase-out of bonus depreciation and research and experimental expenditures.

Major TCJA Provisions That Were Scheduled to Impact

Higher Effective Tax Rate (Taxes-Paid Rate)

2018: First Year- Tax Cuts and Jobs Act

Increased 179 Expensing and 100% Bonus Depreciation

Limitation of Net Interest Deductions

Limitation of Net Operating Loss Deduction

2022:

Amortization of Research and Experimental Expenditures only (no expensing option)

More restrictive change in rules for Limitation of Net Interest Deductions (based on EBIT instead of EBITDA)

2023:

Start of phase-out of 100% Bonus Depreciation.

2027:

Complete phase-out of Bonus Depreciation (zero allowed in 2027)

Source: The Author

Observation

The previous analyses are based on 2017 Tax Act, exclusive of the effects of extensions of the 2017 provisions and the impact of the 2025 OBBBA on tax rates.

The OBBBA of 2025 made the following tax changes to C corporations:

- The 21% C corporation tax rate remains in effect.
- There is 100% expensing of bonus depreciation and an increase in Section 179 limits
- There is 100% expensing of qualified production property (QPP)
- There is expensing of R&E expenditures in IRC 174

- The interest deduction formula in IRC 163(j) is restored to 30% of EBITDA instead of 30% of EBIT (before add-back of depreciation and amortization).

What is the impact of these tax changes in 2025, 2026, and beyond under OBBBA?

Looking back at the University of Pennsylvania study issued with respect to the 2017 TCJA, the study concluded that the book-tax differences and credits related to the TCJA in year one (2018) was a deduction in the effective tax rate from 21.0 to 9.2%.

The TCJA effect in its first year (2018) is anticipated to be the same in 2025 under OBBBA as key changes have been expanded such as 100% bonus depreciation and 100% expensing of R&E, two key drivers of the effective corporate tax rates.

Effective Federal Tax Rates (Taxes-Paid Rate)

	TCJA	OBBBA	GOAL
	2018 Actual	2025 +	Did not pass
Statutory tax rate	21.0%	21.0%	(1) 15.0%
Book-tax differences and credits	(11.8%)	(11.8%)	(11.8%)
Effective taxes-paid rate*	<u>9.2%</u>	<u>9.2%</u>	<u>3.2%</u>

*: % taxes paid based on book income

Source: The Author based on previous study performed by Univ of Pennsylvania

(1): OBBBA had targeted reducing the corporate rate to 15% from 21%; but Congress could not fit this change in under the limited Reconciliation approach to passing OBBBA. The Trump administration has noted that it still has a targeted corporation tax rate of 15% which, coupled with other corporation deductions, would yield an effective (federal taxes paid) tax rate of about 3.2%.

The previous chart illustrates what is expected to *occur* in 2025 and beyond due to changes made by the OBBBA.

Consider the following from the previous chart:

- An extension of the 100% bonus depreciation and R&D expensing is expected to yield results similar to 2018, with a book-tax difference (M-1) of about 11.8%, driving the federal income tax paid rate down to 9.2% (21% less 11.8%).
- For manufacturers and non-manufacturers, deferred tax liabilities are expected to increase to reflect future federal income taxes to be paid when the book-tax differences (from bonus depreciation and R&E deductions) reverse.

- c. With the expansion of Section 1202 stock for C corporations, there may be a surge of change in tax status from S corporation or LLC to C corporation.

B. R&E COSTS UNDER THE OBBBA 2025

The OBBBA dramatically changes the tax treatment of R&E costs starting in 2025.

- a. Domestic R&E costs are expensed effective for tax years after December 31, 2024.
- b. Businesses may choose to capitalize and amortize R&E costs over a minimum of 60 months.
- c. Foreign R&E still capitalized and amortized over 15 years.
- d. There are transition rules for prior R&E costs incurred between 2022 and 2024.