How the OBBBA (One Big Beautiful Bill Act) Changes the Tax Picture

New IRC §174A – Permanent immediate expensing for domestic R&D (effective for tax years beginning after Dec. 31, 2024)

BEFORE OBBBA (Old Law: 2022–2024)

Domestic R&D must be capitalized & amortized over 5 years

INCOME STATEMENT IMPACT (Year 1 Example)	$ millions
Pre-tax income (before R&D deduction)	$100.0
R&D expense deduction (amortization: $100M ÷ 5 years)	(20.0)
Taxable income	$80.0
Current tax @ 21%	(16.8)
Net income (Year 1)	**$63.2**

DEFERRED TAX BALANCE (End of Year 1)	$ millions
Total R&D spend	$100.0
Less: Deducted in Year 1 (amortization)	(20.0)
Remaining capitalized R&D (book basis)	**$80.0**
Deferred tax asset @ 21%	$16.8
Net deferred tax asset (End of Year 1)	**$16.8**

Under the old law, $80M of R&D remains capitalized after Year 1.
A deferred tax asset of $16.8M is recorded (80.0 × 21%).

AFTER OBBBA (New Law: Post–2024)

Domestic R&D is fully deductible in the year incurred (IRC §174A)

INCOME STATEMENT IMPACT (Year of Law Change)	$ millions
Pre-tax income (before R&D deduction)	$100.0
R&D expense deduction (immediate expensing)	(100.0)
Taxable income	$0.0
Current tax @ 21%	$0.0
Income before deferred tax reversal	**$100.0**

DEFERRED TAX IMPACT (Year of Law Change)	$ millions
Deferred tax asset from old law (to be reversed) *(Reversal of Year 1 deferred tax asset)*	(16.8)
Current cash tax effect	$0.0
One-time deferred tax expense (non-cash)	**(16.8)**

The change in law reverses the deferred tax asset recorded under the old law. This creates a one-time, non-cash expense of $16.8M.

Example Impact

(Year of Law Change)

Pre-tax income		R&D deduction		Taxable income		Deferred tax asset reversal (non-cash)		Net income after reversal
$100.0M	–	(100.0M)	=	$0.0M	–	(16.8M)	=	**$83.2M**

Key Takeaways

- ✓ The OBBBA (new IRC §174A) permanently restores immediate expensing for domestic R&D.
- ✓ Under the old law, companies capitalized and amortized domestic R&D over 5 years, creating deferred tax assets.
- ✓ The law change reverses those deferred tax assets, creating a one-time accounting expense (non-cash).
- ✓ Cash taxes do not increase because of this change — it is an accounting remeasurement, not a cash outflow.
- ✓ Look beyond the effective tax rate: separate current taxes, deferred taxes, and one-time tax law changes.

Assumptions

- R&D spend in Year 1: $100M
- Amortization period (old law): 5 years
- Statutory tax rate: 21%
- All amounts in millions (USD)
- Example illustrates Year 1 / year of change

Note: This is a simplified example for illustrative purposes only and does not include other tax attributes, state taxes, ceilings, limitations, or valuation allowance considerations.

Drapalski™ CONSULTING | U.S. CPA Led Advisory
www.drapal.ski

Financial Clarity. Governance. Value Creation.

Drapalski Consulting LLC is a boutique advisory firm supporting businesses and internationally active individuals with finance, governance, risk & compliance (GRC), and U.S. tax matters.

We work alongside founders, CEOs, and investors to establish financial clarity, strengthen governance, and enable disciplined decision-making. In parallel, we support individuals and families with U.S. tax compliance and cross-border reporting requirements.

Our role is not to add noise, but to create structure—ensuring financial information becomes a reliable foundation for both business and personal financial oversight.

Advisory Services (Businesses)

- Transaction advisory, sell-side & buy-side, post-merger integration (PMI)
- Governance, risk & control (GRC) and Internal Audit
- Strategic support in accounting automation & ai
- Scaling finance functions (Fractional CFO)

U.S. Tax & Cross-Border (Individuals & Families)

- U.S. tax filings, FBAR, FATCA
- Cross-border compliance for U.S. persons abroad
- International tax advisory
- Wealth planning

Engagement Model

- Retainer-based hourly
- Limited Scope: U.S. tax & compliance services
- Remote delivery (U.S. & international)

Key Contacts at Drapalski Consulting

President Ross A. Drapalski *(ross@drapal.ski)*
Business Development *new-business@drapal.ski*

General Inquiries
Please direct requests to
info@drapal.ski

Quality decisions require quality insights.

+1 (307) 317-3034 (US)
+49 151 68468371 (DE)

For more information, visit **www.drapal.ski**

Service Coverage: United States, Germany, Remote: cross-border operations

Drapalski Consulting LLC • Mailing Address: 2232 Dell Range Blvd. Suite 303 1067 • Cheyenne, WY 82009 • USA