



Strategic Credit Insight



Wealth
Management

The 2025 One Big Beautiful Bill Act (OBBBA) – recent developments in U.S. business investment incentives

Part 1: A sunseting bonus

When the 2017 Tax Cuts and Jobs Act (TCJA) first introduced 100% bonus depreciation, some businesses accelerated capital investment decisions. Previously, business owners could only expense a fraction of the value of new equipment in the first year placed in service. The TCJA expanded this incentive by temporarily increasing the limit to 100%, allowing businesses, subject to applicable rules and limitations, to potentially reduce taxable income associated with qualifying purchases.

The impact of 100% bonus depreciation on business owners' cash flow can be real.

Consider the example below. This hypothetical example is provided solely to illustrate the mechanical operation of bonus depreciation under simplified assumptions. It does not reflect the tax situation of any specific taxpayer.

Tom, a small business owner taxed at a pass-through rate of 37%, decides to invest \$2,000,000 to update specialized molding machines for making composite hockey sticks. The 100% bonus depreciation may allow Tom to reduce his tax bill dollar-for-dollar in the first year he places this equipment in service, which, under simplified assumptions, illustrates how cash flow timing could be affected.

Potential business pass-through example

Tax year	2024	2025 and later
Bonus depreciation limit	60%	100%
Gross annual earnings	2,150,000	2,150,000
Bonus depreciation deduction on \$2M equipment purchase	(1,200,000)	(2,000,000)
Net annual taxable income	950,000	150,000
Tax at business's 37% pass-through rate	351,500	55,500

Please note that this example is for illustrative purposes only, e.g., assumes no IRC section 199A interaction, does not account for state and local taxes, assumes full usability of losses and assumes equipment is fully qualifying. This example is not representative of any investment vehicle or individual client experience. Results may vary.

Part 2: Bonus depreciation is back with three key changes

The 2025 One Big Beautiful Bill Act (OBBBA) rebooted bonus depreciation in three important ways:

- It ended the phase out, permanently reinstating 100% bonus depreciation on qualifying equipment (generally, tangible business assets with recovery periods of 20 years or less), mitigating significant uncertainty around business capital planning.

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- It expanded the assets eligible for 100% bonus depreciation to include qualified production property (QPP). QPP is a building or structure used as an integral part of manufacturing, production or refining which is placed in service in the U.S. during 2025–2031, resulting in a substantial transformation of the property. Importantly, these types of longer-lived properties are usually depreciated on a 39-year schedule (vs. 20 for shorter-lived equipment). Manufacturers and industrial developers, accustomed to recovering the costs of these buildings much more slowly, may be especially interested in the possibilities.
- It permits businesses to potentially deduct more interest expense from their taxable income while simultaneously accelerating depreciation, realizing concurrent savings. This may make strategic debt a better potential complement to bonus depreciation considerations than before.

Returning to Tom, let’s now assume that his \$2,000,000 business investment is to repurpose a movie theater in Minneapolis into a state-of-the-art composite hockey stick factory.

Potential business pass-through example

Tax year	2024	2025 and later
Bonus depreciation limit for QPP	0%	100%
Gross annual earnings	2,150,000	2,150,000
Bonus depreciation deduction on \$2M QPP investment	(0)	(2,000,000)
Net annual taxable income	2,150,000	150,000
Tax at business’s 37% pass-through rate	795,500	55,500

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Part 3: The icing on the cake — enhanced interest deductibility

Finally, the OBBBA generally returns the tax code to an EBITDA-based standard for purposes of determining deductible business interest, subject to statutory limits, exceptions and future regulatory guidance. While outcomes can of course vary based on individual facts and circumstances and clients should always consult their own tax and legal advisors, the upshot is that businesses may have the potential to deduct more interest on debt than before.

Under prior rules, the amount of interest that Tom could potentially deduct from his taxable income was capped at 30% of EBIT. Now, it is capped at 30% of EBITDA, which is potentially a higher number, especially for a capital-intensive business which is bonus-depreciating newly acquired assets. Under these simplified assumptions, this example illustrates how EBITDA-based limitations could result in a higher interest deduction compared to an EBIT-based limitation. As a function of Tom’s tax rate, which we’ll assume is at a 37% illustrative rate, this corresponds to approximately \$19,203 in an incremental tax impact, before considering individual circumstances.

To illustrate, let’s take Tom’s story one step further and assume that he finances his \$2,000,000 business investment by borrowing at a 7% rate, incurring \$140,000 in annual interest expense. Tom’s respective EBIT and EBITDA calculations are below.

	EBIT	EBITDA
Gross annual	150,000 +	150,000 +
Interest	140,000 +	140,000 +
Tax on net earnings	3,700 +	3,700 +
Bonus depreciation	0 =	2,000,000 =
Total	293,700	2,293,700
Limit on deductible interest (30% of EBIT/DA)	88,100	688,100

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If Tom was on the fence about how to finance his business investment, enhanced interest deductibility may tip the balance in favor of using strategic debt. Before, bonus depreciation could limit the amount of business interest that was potentially tax deductible. Now, the two deductions can potentially work together more seamlessly.

Part 4: Putting it all together — Tom uses strategic debt to finance his hockey stick factory

Now let's assume that Tom determines, in consultation with his CPA, that a significant portion of the interest he pays on debt to finance his \$2,000,000 business investment may be tax-deductible under current rules, subject to applicable limitations.

Potential business pass-through example

Tax year	2024	2025 and later
Bonus depreciation limit for QPP	0%	100%
Gross annual earnings	2,150,000	2,150,000
Bonus depreciation deduction on \$2M QPP investment	(0)	(2,000,000)
Business loan interest deduction at 7% rate	(140,000)	(140,000)
Net annual taxable income	2,010,000	10,000
Tax at business's 37% pass-through rate	743,700	3,700

This example is for illustrative purposes only, and is not representative of any investment vehicle or individual client experience. Results may vary.

Pass, shoot or dump the puck — Tom's financing options

Tom's power play continues, as he has multiple financing options.

- If his business has an established track record and otherwise qualifies, he could seek traditional business financing, with his business pledging its assets, including receivables, inventory, equipment and/or real property, as collateral. Notably, in this structure, for optimal terms, Tom will likely still need to personally guaranty his business's loan.
- If Tom has sufficient eligible liquid or other assets in his own name, he could instead borrow against those assets personally, then make his own loan to his business. This may be an especially attractive option if Tom has co-investors, as Tom can fairly charge the business a premium over his cost of funds given the difference in credit risk profile, creating positive arbitrage. Notably, while IRS guidance has generally focused on a tracing analysis to determine interest deductibility—emphasizing the use of debt proceeds instead of collateral composition—clients should consult their independent tax and legal advisors regarding the application of these rules and any relevant exceptions.

- Finally, Tom could even consider a third-party pledge structure, in which his business borrows directly against his pledged personal liquid assets. This may be an especially attractive option for a pre-cash-flow startup business without a long track record.
- Working with his RBC Wealth Management financial advisor and teams of dedicated in-house specialists, Tom can determine the financing option that best fits his profile and goals.
- Importantly, RBC Wealth Management does not give tax advice, and, as such, Tom should rely on his own tax and legal advisors for advice regarding tax treatment, deductibility and compliance. The tax characteristics of investment and strategic debt strategies are highly fact-specific and individualized. In particular, as implementing regulations come out, the IRS is likely to issue relevant future guidance on new OBBBA terms specifically, further underscoring the importance of consulting with your independent tax and legal advisors.

The imperative for action

The convergence of permanent bonus depreciation, expanded asset eligibility and enhanced interest deductibility under OBBBA creates a compelling environment for strategic reinvestment. Businesses like Tom's stand to realize potentially substantial tax benefits while pursuing growth initiatives. As RBC Wealth Management emphasizes, clients should work directly with their qualified tax advisors to navigate the nuanced, fact-specific application of the new tax rules, with their financial advisors providing relevant factual information regarding their accounts to support those discussions.

Next steps

Engage your RBC Wealth Management financial advisor to explore how OBBBA's provisions might strengthen your investment and financing strategies.



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