

# **The One, Big, Beautiful Bill Act Analysis and Tax Provisions**



## **Executive Summary October 31, 2025**

*Updated November 10, 2025*

# The One, Big, Beautiful Bill Act

## *Analysis and Tax Provisions*

On July 4, 2025, President Donald J. Trump signed into law The One, Big, Beautiful Bill Act (OBBBA), extending several Tax Cut and Jobs Act (TCJA) provisions and enacting changes to the federal tax system for businesses and individuals.

This Executive Summary features key provisions of the OBBBA and analyzes the impact of these provisions on the Alabama tax regime. This document examines provisions impacting individuals (including those operating as a sole proprietorship), C-Corporations, and financial institutions. This document does not include an analysis of provisions which might impact pass-through entities or trusts. The taxation of pass-through entities is dependent on numerous factors, including how the entity is structured and the nature of its owners, partners, shareholders, or beneficiaries.

In general, the taxable income of an Alabama S-Corporation is determined in the same manner as in the case of an individual (§40-18-161, Code of Ala. 1975). The taxable income of an Alabama subchapter K entity is determined in accordance with subchapter K of the Internal Revenue Code (§40-18-24, Code of Ala. 1975). The effects of the OBBBA on trusts may vary depending on the tax status of its beneficiaries, as well as the structure of the trust itself, e.g., simple versus complex. Due to the hybrid nature of trusts, some of the income is taxed at the trust level, while some income is distributed to its beneficiaries. The income and deductions for trusts are determined in accordance with subchapter J of the Internal Revenue Code (§40-18-25, Code of Ala. 1975). Trusts are generally taxed in the same manner as individuals, with some modifications.

For more information, contact ALDOR's Tax Policy and Governmental Affairs Division at [taxpolicy@revenue.alabama.gov](mailto:taxpolicy@revenue.alabama.gov).

# The One, Big, Beautiful Bill Act

## *Analysis and Tax Provisions*

### Limitations of the Analysis

- This is not a comprehensive analysis of all the OBBBA provisions or their potential impact on Alabama taxpayers.
- This analysis is not meant to provide tax guidance but rather is meant to provide general guidance on the OBBBA provisions in relation to Alabama income and financial institution tax laws.
- Regulations and forms relating to the OBBBA changes have not been released by the Internal Revenue Service to provide guidance on how each provision under the OBBBA will be implemented. This analysis is based on the most current information available.
- The conclusions in this document are subject to revision as additional information becomes available, including additional federal guidance and input from other tax administrative agencies and/or the private sector.

### Analysis is provided for the following:

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# Individual Income Tax Provisions

The computation of Alabama individual income tax begins with state adjusted gross income. The Alabama individual income tax is not directly tied to the calculation of federal taxable income. For administrative simplicity, Alabama conforms to certain federal provisions on a rolling basis, which means Alabama will conform to relevant provisions of the new federal law automatically. Alabama statutes are reliant on the structure of the federal income tax and conform to various features of the federal tax base, such as definitions of items of income, deductions, and exclusions, as well as the treatment of various types of transactions. This analysis addresses the existing ties between the federal tax code and the Alabama tax code for relevant OBBBA provisions

## I.R.C. § 1(j) - Extension and Enhancement of Reduced Tax Rates

This section makes the current individual tax rates permanent, with an additional year of inflation adjustment to the 10 and 12 percent brackets.

Single:

If taxable income is:	The tax is:
Not over \$13,600	10% of taxable income
Over \$13,600 but not over \$51,800	\$1,360, plus 12% of the excess over \$13,600
Over \$51,800 but not over \$82,500	\$5,944, plus 22% of the excess over \$51,800
Over \$82,500 but not over \$157,500	\$12,698, plus 24% of the excess over \$82,500
Over \$157,500 but not over \$200,000	\$30,698, plus 32% of the excess over \$157,500
Over \$200,000 but not over \$500,000	\$44,298, plus 35% of the excess over \$200,000
Over \$500,000	\$149,298, plus 37% of the excess over \$500,000

## Married Filing Separate:

<b>If taxable income is:</b>	<b>The tax is:</b>
Not over \$9,525	10% of taxable income
Over \$9,525 but not over \$38,700	\$952.50, plus 12% of the excess over \$9,525
Over \$38,700 but not over \$82,500	\$4,453.50, plus 22% of the excess over \$38,700
Over \$82,500 but not over \$157,500	\$14,089.50, plus 24% of the excess over \$82,500
Over \$157,500 but not over \$200,000	\$32,089.50, plus 32% of the excess over \$157,500
Over \$200,000 but not over \$300,000	\$45,689.50, plus 35% of the excess over \$200,000
Over \$300,000	\$80,689.50, plus 37% of the excess over \$300,000

## Head of Household:

<b>If taxable income is:</b>	<b>The tax is:</b>
Not over \$13,600	10% of taxable income
Over \$13,600 but not over \$51,800	\$1,360, plus 12% of the excess over \$13,600
Over \$51,800 but not over \$82,500	\$5,944, plus 22% of the excess over \$51,800
Over \$82,500 but not over \$157,500	\$12,698, plus 24% of the excess over \$82,500
Over \$157,500 but not over \$200,000	\$30,698, plus 32% of the excess over \$157,500
Over \$200,000 but not over \$500,000	\$44,298, plus 35% of the excess over \$200,000
Over \$500,000	\$149,298, plus 37% of the excess over \$500,000

## Married Filing Joint:

If taxable income is:	The tax is:
Not over \$19,050	10% of taxable income
Over \$19,050 but not over \$77,400	\$1,905, plus 12% of the excess over \$19,050
Over \$77,400 but not over \$165,000	\$8,907, plus 22% of the excess over \$77,400
Over \$165,000 but not over \$315,000	\$28,179, plus 24% of the excess over \$165,000
Over \$315,000 but not over \$400,000	\$64,179, plus 32% of the excess over \$315,000
Over \$400,000 but not over \$600,000	\$91,379, plus 35% of the excess over \$400,000
Over \$600,000	\$161,379, plus 37% of the excess over \$600,000

## Estates and Trusts:

If taxable income is:	The tax is:
Not over \$2,550	10% of taxable income
Over \$2,550 but not over \$9,150	\$255, plus 24% of the excess over \$2,550
Over \$9,150 but not over \$12,500	\$1,839, plus 35% of the excess over \$9,150
Over \$12,500	\$3,011.50, plus 37% of the excess over \$12,500

*Effective Date: Taxable Years beginning after December 31, 2024*

*Tied to Federal: No*

**I.R.C. § 63(c)(7) Extension and Enhancement of Increased Standard Deduction**

This section permanently increases the base standard deduction amount to \$15,750 for single filers, \$23,625 for individuals who file as head of the household, and \$31,500 for married individuals filing jointly, indexed for inflation annually.

*Effective Date: Taxable Years beginning after December 31, 2025*

*Tied to Federal: No*

### **I.R.C. § 151(d)(5), 63(f) - Termination of Deduction for Personal Exemption other than Temporary Senior Deduction**

The section permanently suspends the personal exemption. A new deduction is available for a qualifying senior (age 65 and older) in the amount of \$6,000 with a reduction of 6% when certain thresholds of modified adjusted gross income are met.

*Effective Date: Taxable Years beginning after December 31, 2024*

*Tied to Federal: No*

### **I.R.C. § 24(h) - Extension and Enhancement of Increased Child Tax Credit**

Makes permanent the following provisions:

- The increased child tax credit and increases the amount of the nonrefundable child tax credit to \$2,200 per child beginning in 2025, with an annual adjustment to the value of the credit for inflation.
- The \$1,400 maximum amount of the additional child tax credit per qualifying child (\$1,700 in 2025).
- The income phaseout threshold of \$400,000 for taxpayers filing jointly and \$200,000 for all other taxpayers, as well as the \$500 nonrefundable credit for each dependent of the taxpayer other than a qualifying child.

*Effective Date: Taxable Years beginning after December 31, 2024*

*Tied to Federal: No*

### **I.R.C. § 199A(b)(3) - Extension and Enhancement of Deduction for Qualified Business Income**

This section makes the 20 percent deduction for qualified business income (Qbi) permanent. This section makes permanent the QBI tax deduction and expands the phase-in range of the limitations on the QBI tax deduction to \$75,000 for single filers, and \$150,000 for married taxpayers filing joint. This section also adds a new minimum deduction of \$400 for taxpayers who have at least \$1,000 of QBI from one or more active trades or businesses in which the taxpayer materially participates.

*Effective Date: Taxable Years beginning after December 31, 2025*

*Tied to Federal: No*

### **I.R.C. § 2010(c)(3) - Extension and Enhancement of Increased Estate and Gift Tax Exemption Amounts**

This section makes permanent and increases the base estate tax, gift tax, and generation-skipping transfer tax exemption amount after 2025 to \$15 million (from \$5 million), indexed for inflation annually.

*Effective Date: Estates of decedents dying or gifts made after December 31, 2025*

*Tied to Federal: No*

**I.R.C. § 55(d)(4) - Extension of Increased Alternative Minimum Tax Exemption Amounts and Modification of Phaseout Thresholds**

This section makes permanent the increased alternative minimum tax (AMT) exemption amounts and reduces the alternative minimum taxable income threshold amount to \$500,000 for taxpayers filing single and \$1 million for married taxpayers filing jointly, indexed for inflation annually. This section also increases the AMT exemption phaseout rate to 50 percent (previously 25 percent).

*Effective Date: Tax Years Beginning After December 31, 2025*

*Tied to Federal: No*

**I.R.C. § 163(h)(3)(f) - Extension and Modification of Limitation on Deduction for Qualified Residence Interest**

This section makes permanent the qualified residence interest deduction. Taxpayers who itemize their tax deductions may deduct mortgage debt interest paid on the first \$375,000 for taxpayers filing single and \$750,000 for married taxpayers filing jointly. In addition, certain mortgage insurance premiums are now treated as qualified residence interest.

*Effective Date: Tax Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-15(a)(2), Code of Ala. 1975*

*Note: See Rule 810-3-15-.03*

**I.R.C. § 165(h)(5) - Extension and Modification of Limitation on Casualty Loss Deduction**

This section limits the itemized tax deduction for unreimbursed personal casualty losses to losses associated with a federal disaster and expands the tax deduction to include certain state disasters. A state disaster is any state declared disaster with respect to any natural catastrophe.

*Effective Date: Tax Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-15(a)(6), Code of Ala. 1975*

**I.R.C. § 67(g) - Termination of Miscellaneous Itemized Deductions other than Educator Expenses**

Permanently eliminates the itemized tax deduction for miscellaneous expenses except for unreimbursed expenses for books, supplies, and certain other expenses incurred by an individual who is a K-12 teacher, instructor, counselor, principal, school aide, interscholastic sports administrator, or coach.

*Effective Date: Tax Years Beginning After December 31, 2025*

*Tied to Federal: No*

**I.R.C. § 68 - Limitation on Tax Benefit of Itemized Deductions**

This section replaces the overall limitation on itemized tax deductions applicable for 2025 and after (commonly known as the Pease limitation) with a modified limitation on itemized tax deductions. Beginning in 2026, a taxpayer's itemized tax deductions are reduced by 2/37 of the lesser of (1) the taxpayer's itemized tax deductions, or (2) the amount of the taxpayer's taxable income (including the full amount of any itemized tax deductions) that exceeds the dollar amount at which the 37 percent federal income tax rate bracket (applicable to the taxpayer) begins.

*Effective Date: Taxable Years beginning after December 31, 2025*

*Tied to Federal: No*

**I.R.C. § 132(f)(8) - Extension and Modification of Qualified Transportation Fringe Benefits**

This section permanently eliminates the exclusion from gross income of reimbursements paid by an employer to an employee for expenses incurred to purchase, improve, repair, and store a bicycle that is regularly used to travel between the employee's residence and place of work (qualified bicycle expenses).

*Effective Date: Tax Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-14(a)(3)k, Code of Ala. 1975*

**I.R.C. § 217(k) and §132(g)(2) - Extension and Modification of Limitation on Deduction and Exclusion for Moving Expenses**

The deduction for moving expenses is permanently eliminated, except for active-duty members of the Armed Forces and is expanded to include certain members of the intelligence community.

*Effective Date: Tax Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-15(a)(18) and §40-18-14(a)(3)k, Code of Ala. 1975*

*Note: See Rule 810-3-15-.12*

**I.R.C. § 165(d) - Extension and Modification of Limitation on Wagering Losses**

This section makes permanent and further expands the limit on the itemized tax deduction for wagering losses. Specifically, under this section, wagering losses permanently include expenses incurred in carrying on wagering transactions that would otherwise be deductible. Expenses incurred in carrying on wagering transactions may be deducted only to the extent that such expenses (in addition to any other wagering losses) are offset by gains from wagering that are included in gross income. This section further limits the tax deduction for wagering losses to 90 percent (from 100 percent) of the amount of wagering gains included in gross income.

*Effective Date: Tax Years Beginning After December 31, 2025*

*Tied to Federal: No*

*Note: See Rule 810-3-17-.01*

**I.R.C. § 529A(b)(2)(B) - Extension and Enhancement of Increased Limitation on Contributions to ABLE Accounts**

This section permanently allows the designated beneficiary of an Achieving a Better Life Experience (ABLE) account to make additional contributions to their ABLE account (subject to certain requirements and limitations) that are subject to an increased contribution limit.

*Effective Date: Tax Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §16-33C-3 and §40-18-15.8, Code of Ala. 1975*

**I.R.C. § 25B(d)(1) - Extension and Enhancement of Savers Credit Allowed for ABLE Contributions**

This section permanently extends the qualified retirement savings contribution tax credit for contributions made to an ABLE account by the account's designated beneficiary. Further, this section increases the maximum amount of the tax credit to \$2,100 (from \$2,000), indexed for inflation annually.

*Effective Date: Tax Years Beginning After December 31, 2026*

*Tied to Federal: No*

**I.R.C. § 529(c)(3)(C)(i)(III) - Extension of Rollovers from Qualified Tuition Programs to ABLE Accounts Permitted**

This section makes permanent the provision that allows nontaxable rollovers from a qualified tuition program (529 plan) to an ABLE account, subject to certain requirements.

*Effective Date: Tax Years Beginning After December 31, 2026*

*Tied to Federal: No*

**I.R.C. § 11026(a) of Public Law 115-97 - Extension of Treatment of Certain Individuals Performing Services in the Sinai Peninsula and Enhancement to Include Additional Areas**

This section permanently treats a qualified hazardous duty area as a combat zone for purposes of determining eligibility for certain federal tax benefits available to members of the Armed Forces.

*Effective Date: January 1, 2026*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-3, Code of Ala. 1975*

### **I.R.C. § 108(f)(5) - Extension and Modification of Exclusion from Gross Income of Student Loans Discharged on Account of Death or Disability**

Any student loan discharged due to death or total and permanent disability is not included in the gross income calculation for income tax purposes.

*Effective Date: Discharges after December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-14(a)(3)h, Code of Ala. 1975*

### **I.R.C. § 164(b)(6) - Limitation on Individual Deductions for Certain State and Local Taxes (SALT Deduction)**

Beginning in the 2025 tax year, the SALT deduction cap is increased from \$10,000 to \$40,000 for married taxpayers filing jointly and from \$5,000 to \$20,000 for single filers. For tax year 2026, the \$40,000 limit increases to \$40,400, and then by 1 percent each year after 2026 through 2029. In 2030, under this section, the SALT deduction reverts to \$10,000 for married taxpayers filing jointly and to \$5,000 for single taxpayers. The section also provides an income limit starting at \$500,000, with a phase out to \$10,000 for incomes over \$600,000. The income limit increases by 1 percent each year through 2029.

*Effective Date: Tax Years Beginning After December 31, 2024*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-15(a)(3)f, Code of Ala. 1975*

### **New Section 224 – No Tax on Tips**

This section creates a new deduction to income for qualifying tips not to exceed \$25,000. The deduction has a 10 percent phase out rate when adjusted gross income exceeds \$150,000 for taxpayers filing single and \$300,000 for married taxpayers filing jointly. The tips must be reported to the IRS as income on the appropriate form.

*Effective Date: Tax Years Beginning After December 31, 2024 (Sunset Date of 2028)*

*Tied to Federal: No*

### **New Section 225 - No Tax on Overtime**

A new deduction to income is allowed for qualifying overtime that is reported to the taxpayer from their employer up to \$12,500 for taxpayers filing single and \$25,000 for married taxpayers filing jointly. The deduction has a 10 percent phase out rate when adjusted gross income exceeds \$150,000 for taxpayers filing single and \$300,000 for married taxpayers filing jointly. The overtime that qualifies is as defined in the Fair Labor Standards Act of 1938.

*Effective Date: Tax Years Beginning After December 31, 2024 (Sunset Date of 2028)*

*Tied to Federal: No*

**I.R.C. § 163(h) - No Tax on Car Loan Interest**

This section establishes a new tax deduction of up to \$10,000 annually for interest paid on indebtedness incurred in 2025 through 2028 to buy a passenger vehicle (for personal use and subject to certain requirements). The tax deduction phases out for single taxpayers with modified adjusted gross income that exceeds \$100,000 (or \$200,000 for married taxpayers filing jointly). Final assembly of the automobile must have been completed in the United States.

*Effective Date: Applies to Indebtedness Incurred after December 31, 2024 (Sunset Date of 2028)*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-15(a)(2), Code of Ala. 1975*

*Note: See Rule 810-3-15-.03*

**New Section 530A - Trump Accounts and Contribution Pilot Program**

This section created savings accounts, known as a Trump account, for children under the age of 18. These accounts are treated in the same manner as an individual retirement account under section 408(a) (IRA, Not Roth IRA). Annual contributions to the accounts cannot exceed \$5,000. Employers are allowed to contribute up to \$2,500 tax-free to employee accounts. Withdrawals from the account are allowed after the age of 18 for allowable items.

*Effective Date: December 31, 2025*

*Tied to Federal: Yes (tied only to the taxation of distributions)*

*Corresponding State Authority: §40-18-25.1(d), Code of Ala. 1975*

*Notes: The Trump Accounts in new section 530A will be treated in the same manner as accounts under section 408(a). Section 40-18-25 conforms to I.R.C. §408, therefore an Alabama Trust would exempt these amounts from Alabama taxation.*

**New Section under 530A and amends Part III of Subchapter B of Chapter 1; New Section 128; New Section 139J - Employer Contributions to Trump Accounts / Certain Contributions to Trump Accounts**

This section provides that the gross income of an employee will not include amounts paid by the employer as a contribution to the Trump account of the employee or any dependent of an employee if the amounts are paid pursuant to the Trump Account Contribution Program. The contribution cannot exceed \$2,500.

*Effective Date: December 31, 2025*

*Tied to Federal: No*

**New Section 6434 - Trump Accounts Contribution Pilot Program**

This section provides that a child born after December 31, 2024, and before January 1, 2029, will get \$1,000 deposited by the Secretary into a Trump Account.

*Effective Date: December 31, 2025*

*Tied to Federal: No*

### **New Section 6659 - Improper Claim for Trump Account Contribution Pilot Program Credit**

This section provides a \$500 penalty for anyone claiming to open a Trump account for an ineligible child due to negligence, if done due to fraud the penalty will be \$1,000. Includes appropriations of \$410,000,000 to carry out the new program.

*Effective Date: December 31, 2025*

*Tied to Federal: No*

### **I.R.C. § 168(k) - Full Expensing for Certain Business Property**

This section permanently restores the 100 percent bonus depreciation for property acquired and placed into service on or after January 19, 2025. Bonus depreciation generally allows a business to deduct either the full cost or a large percentage of the cost of qualified property in the year that the property is placed into service, rather than depreciating such costs over a period of time.

*Effective Date: Property Placed into Service on or After January 19, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-15(a)(8), Code of Ala. 1975*

### **I.R.C. § 263A(d)(2)(C)(ii) - Expensing of Certain Costs of Replanting Citrus Plants Lost by Reason of Casualty**

This section extends the special rule for costs incurred by a third party in connection with replanting an edible crop for human consumption after a casualty loss.

*Effective Date: Applies to Plants Planted or Grafted After January 19, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-11, Code of Ala. 1975*

### **New Section 174A - Full Expensing of Domestic Research and Experimental Expenditures**

Under current law, taxpayers must capitalize and amortize research and experimental (R&E) expenses over five years. This new section restores full deductibility of domestic R&E expenditures in the year in which they are incurred. Foreign R&E expenses will continue to be amortized over a 15-year period. R&E expenses that are chargeable to capital accounts but not chargeable to property will be allowed to amortize over a period of not less than 60 months.

*Effective Date: Taxable Years Beginning After December 31, 2024 (Includes Retroactive Election to December 31, 2021)*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-13(a), Code of Ala. 1975  
(see appendix A for additional information)*

### **I.R.C. § 163(j)(8)(A) - Modification of Limitation on Business Interest**

This section reinstates the exclusion of the tax deduction for depreciation, amortization, or depletion from the calculation of adjusted taxable income for purposes of the limitation on the tax deduction for interest expenses for tax years beginning after December 31, 2024. This section also expands the exclusion of interest on floor plan financing from the limit on the tax deduction for business interest expenses to include interest on floor plan financing of any camper or trailer designed to (1) provide temporary living quarters for recreational, camping, or seasonal use; and (2) be towed by, or affixed to, a motor vehicle.

*Effective Date: Taxable Years Beginning After December 31, 2024*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-15(a)(2) and §40-18-39.1, Code of Ala. 1975  
(see corresponding provisions on pages 15, 16, 26, and 31)*

### **I.R.C. § 45S - Extension and Enhancement of Paid Family and Medical Leave Credit**

This section makes the business tax credit permanent for paid family and medical leave and allows employers to base the tax credit on certain wages or premiums paid. An eligible employer may claim a tax credit beginning in 2026, as part of the general business tax credit, for up to 25 percent of either (1) wages paid to qualifying employees during any period that such employees are on family and medical leave, or (2) the total amount of premiums paid or incurred for insurance policies that provide paid family and medical leave for employees.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: No*

### **I.R.C. § 274(o) - Exceptions from Limitations on Deductions for Business Meals**

An employer generally may not deduct certain expenses paid or incurred after 2025 for (1) providing food or beverages to employees through an eating facility (operated by the employer for employees) that meets the de minimis requirements for fringe benefits (e.g., office snacks and coffee), or (2) meals provided by the employer for the convenience of the employer on the employer's premises to employees and their spouses and dependents. However, an employer may continue to deduct such expenses if (1) sold to customers (including employees) for adequate and full consideration (2) required to be provided under federal law by the employer to the crew of a commercial vessel (3) provided by the employer to the crew of a fishing vessel, or (4) provided to employees of certain fishing processing facilities in Alaska that are not located in a metropolitan area.

*Effective Date: Amounts Paid and Incurred after December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-15(a)(20), Code of Ala. 1975*

### **I.R.C. § 179 - Increased Dollar Limitations for Expensing of Certain Depreciable Business Assets**

The section increases the maximum amount a taxpayer may expense under Code section 179 to \$2.5 million (previously \$1 million) and increases the phaseout threshold from \$2.5 million to \$4 million, each amount indexed for inflation after 2025.

*Effective Date: Property Placed into Service in Taxable Years Beginning after December 31, 2024*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-15(a)(21), Code of Ala. 1975*

### **New Section 168(n) - Special Depreciation Allowance for Qualified Production Property**

This section allows for an optional 100 percent depreciation allowance for nonresidential real property (qualified production property). Qualified production property means that portion of any nonresidential real property where the construction begins after January 19, 2025, and before January 1, 2029.

*Effective Date: Property Placed into Service After July 4, 2025, and Before January 1, 2031*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-15(a)(8), Code of Ala. 1975*

### **I.R.C. § 48D(a) - Enhancement of Advanced Manufacturing Investment Credit**

This section provides an advanced manufacturing investment credit for any taxable year in an amount equal to 35 percent (amended, was 25 percent) of the qualified investment for such taxable year with respect to any advanced manufacturing facility of an eligible taxpayer.

*Effective Date: Property Placed into Service After December 31, 2025*

*Tied to Federal: No*

### **I.R.C. § 163(j) - Coordination of Business Interest Limitation with Interest Capitalization Provisions**

Under current law, the tax deduction for business interest expenses is limited to the sum of (1) business interest income for the tax year in which the tax deduction is being claimed, (2) 30 percent of the taxpayer's adjusted taxable income, and (3) the taxpayer's floor plan financing interest. This section provides that the limitation on tax deduction of business interest is calculated before capitalizable interest is calculated.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-15(a)(2) and §40-18-39.1 Code of Ala. 1975 (see corresponding provisions on pages 14, 16, 26, and 31)*

**I.R.C. § 163(j)(8) - Definition of Adjusted Taxable Income for Business Interest Limitation**

This section excludes Subpart F income and net CFC tested income (formerly known as GILTI) from adjusted taxable income for purposes of calculating the limitation on the business interest tax deduction.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-15(a)(2) and §40-18-39.1, Code of Ala. 1975 (see corresponding provisions on pages 14, 15, 26, and 31)*

**I.R.C. § 951 - Modifications to Pro Rata Share Rules**

Provides that if a foreign corporation is a CFC at any time during the year, each U.S. shareholder must include its pro-rata share of the corporation's Subpart F income and each U.S. shareholder that owns stock in the CFC on the last day of the year must include its pro-rata share of the amount computed under Code section 956 relating to investment in earnings of U.S. property.

*Effective Date: Taxable Years for Specified Foreign Corporations Beginning after December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-14 and §40-18-21, Code of Ala. 1975*

**I.R.C. § 45F(a)(1) - Enhancement of Employer-Provided Child Care Credit**

This section increases the tax credit for employers that provide childcare to their employees. Under this section, the portion of the tax credit for qualified childcare expenses increases to 40 percent (from 25 percent) or to 50 percent for eligible small businesses. This section also increases the maximum amount of the tax credit to \$500,000 (from \$150,000) or \$600,000 for eligible small businesses (annually adjusted for inflation).

*Effective Date: Amounts Paid or Incurred After December 31, 2025*

*Tied to Federal: No*

**I.R.C. § 23(a) - Enhancement of Adoption Credit**

This section makes up to \$5,000 of the adoption tax credit refundable and adjusts this amount annually for inflation after 2025. However, under this section, the refundable portion of the adoption tax credit may not be carried forward.

*Effective Date: Taxable Years Beginning After December 31, 2024*  
*Tied to Federal: No*

**I.R.C. § 23(d)(3) - Recognizing Indian Tribal Governments for Purposes of Determining Whether a Child has Special Needs for Purpose of the Adoption Credit**

This section allows Indian tribal governments to determine whether a child has special needs for purposes of calculating the adoption tax credit.

*Effective Date: Taxable Years Beginning After December 31, 2024*  
*Tied to Federal: No*

**I.R.C. § 129(a)(2)(A) - Enhancement of the Dependent Care Assistance Program**

This section increases the maximum tax-free dependent care assistance contribution limits from \$2,500 for individuals (\$5,000 for married couples) to \$3,750 for individuals and \$7,500 for married couples.

*Effective Date: Taxable Years Beginning After December 31, 2025*  
*Tied to Federal: Yes*  
*Corresponding State Authority: §40-18-14(a)(3), Code of Ala. 1975*

**I.R.C. § 21(a) - Enhancement of Child and Dependent Care Tax Credit**

This section increases the non-refundable tax credit for expenses paid by an individual for the care of a child or dependent that enables such individual to be gainfully employed. The section also adjusts the max credit limit based on adjusted gross income and the phase out rate.

*Effective Date: Taxable Years Beginning After December 31, 2025*  
*Tied to Federal: No*

**Subpart A of Part IV of Subchapter A of Chapter 1, New Section 25F - Tax Credit for Contributions of Individuals to Scholarship Granting Organizations**

This section establishes a nonrefundable tax credit of up to \$1,700 for cash contributions made by an individual who is a citizen or resident of the United States to a tax-exempt organization that provides scholarships for qualified elementary and secondary school expenses to eligible students (scholarship granting organization), subject to limitations.

*Effective Date: Taxable Years Beginning After December 31, 2026*  
*Tied to Federal: No*

*Note: The amount allowed as a credit for a taxable year shall be reduced by the amount allowed as a credit on any state tax return of the taxpayer for qualified contributions made by the taxpayer during the taxable year. The term "covered state" means one*

*that, for a calendar year, voluntarily elects to participate under this section and identify scholarship granting organizations.*

*Alabama Participation: Pending. As more information becomes available this will be updated.*

### **Part III of Subchapter B of Chapter 1, New Section 140 - Scholarships for Qualified Elementary or Secondary Education Expenses of Eligible Students**

This section lists the requirements for the Scholarship Granting Organization program.

*Effective Date: Taxable Years Beginning After December 31, 2026*

*Tied to Federal: No*

### **I.R.C. § 127(c)(1)(B) - Exclusion for Employer Payments of Student Loans**

This section makes permanent the exclusion of education assistance paid by an employer to an employee (\$5,250 for 2025 and 2026, annually adjusted for inflation) from (1) gross income by an employee, and (2) wages by an employer (for employment tax purposes).

*Effective Date: Payments Made After December 31, 2025*

*Tied to Federal: No*

### **I.R.C. § 529(c)(7) - Additional Expenses Treated as Qualified Higher Education Expenses for Purposes of 529 Accounts**

This section expands the expenses eligible for tax-free withdrawals from qualified tuition programs (529 plans) to include certain additional expenses related to elementary, secondary, or homeschool education. This section also increases the limit on distributions from a 529 plan used in connection with enrollment or attendance at an elementary or secondary school to \$20,000 (from \$10,000).

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-15(a)(28), Code of Ala. 1975*

### **I.R.C § 1400Z-1(c)(2)(B), § 6039K, § 6039L, and § 6726 - Permanent Renewal and Enhancement of Opportunity Zones**

This section permanently extends the Opportunity Zone program, establishes specific tax incentives for investments in rural areas, and modifies the rules related to deferred gains and stepped-up basis.

*Effective Date: July 4, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-6.1 and Chapter 40-9H, Code of Ala. 1975*

*Note: This benefit is only available to an opportunity fund approved by the Alabama Department of Economic and Community Affairs (ADECA).*

**I.R.C. § 45D(f)(1)(H) - Permanent Extension of New Markets Tax Credit**

This section permanently extends the New Markets Tax Credit (a tax credit for certain investments in eligible, low-income communities).

*Effective Date: Calendar Years Beginning After December 31, 2025*

*Tied to Federal: No*

**I.R.C. § 170(p) - Permanent and Expanded Reinstatement of Partial Deductions for Charitable Contributions of Individuals who do not Elect to Itemize**

The section creates a permanent deduction for charitable contributions for taxpayers who claim the standard deduction. The maximum deduction amount is \$1,000 for taxpayers filing single and \$2,000 for married taxpayers filing jointly.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-18-15(a)(10), Code of Ala. 1975*

*Note: §40-18-15(a)(10) only applies to itemized deductions.*

**I.R.C. Paragraph (1) of § 170(b) - 0.5 Percent Floor on Deduction of Contributions Made by Individuals**

This section imposes a new limitation on the itemized tax deduction for charitable contributions made by individuals beginning in 2026. Under this section, an itemized tax deduction for charitable contributions is allowed only to the extent that an individual's aggregate charitable contributions exceed 0.5 percent of the individual's contribution base.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-15(a)(10), Code of Ala. 1975*

**I.R.C. § 170(n)(1) - Adjustment of Charitable Deduction for Certain Expenses Incurred in Support of Native Alaskan Subsistence Whaling**

This section increases to \$50,000 (from \$10,000) the limit on the tax deduction for expenses incurred by a whaling captain in carrying out sanctioned bowhead whaling activities.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-15(a)(10), Code of Ala. 1975*

**I.R.C. § 460(e) - Exception to Percentage of Completion Method of Accounting for Certain Residential Construction Contracts**

This section allows certain residential construction contracts entered into in tax years beginning after July 4, 2025, to use another permissible method of accounting (e.g., the uniform capitalization rules), rather than the percentage of completion method of accounting.

*Effective Date: Contracts Entered into in Taxable Years Beginning After July 4, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-13(a), Code of Ala. 1975*

### **I.R.C. § 1202(a)(1) - Expansion of Qualified Small Business Stock Gain Exclusion**

This section modifies the current exclusion of gain on qualified small business stock (QSBS) under Code section 1202 to be based on a tiered gain exclusion applicable to QSBS acquired after the date of enactment, allowing non-corporate taxpayers to exclude 50 percent of gain from income after holding the QSBS for three years, 75 percent after holding for four years and 100 percent after holding for five years.

*Effective Date: Stock Issued After July 4, 2025*

*Tied to Federal: No*

### **I.R.C. § 304(b) - Extension of Rules for Treatment of Certain Disaster-Related Personal Casualty Losses**

This section allows taxpayers to deduct disaster-related personal casualty losses, without having to itemize, beyond the current expiration date of February 10, 2025, through 30 days after the date of enactment.

*Effective Date: February 10, 2025, 30 days after July 4, 2025*

*Tied to Federal: No*

### **I.R.C. § 25E(g) - Termination of Previously Owned Clean Vehicle Credit**

This section terminates the clean vehicle tax credit for eligible used vehicles.

*Effective Date: Terminated September 30, 2025*

*Tied to Federal: No*

### **I.R.C. § 30D(h) - Termination of New Clean Vehicle Credit**

This section terminates the clean vehicle tax credit for eligible new vehicles.

*Effective Date: Terminated September 30, 2025*

*Tied to Federal: No*

### **I.R.C. § 30C(i) - Termination of Alternative Fuel Vehicle Refueling Property Credit**

This section terminates the alternative fuel refueling property tax credit by requiring the property to be placed in service on or before June 30, 2026, to qualify.

*Effective Date: Terminated July 30, 2026*

*Tied to Federal: No*

**I.R.C. § 25C(h) - Termination of Energy Efficient Home Improvement Credit**

This section terminates the energy efficient home improvement tax credit by requiring eligible improvements be put into service by December 31, 2025, to qualify.

*Effective Date: Terminated December 31, 2025*

*Tied to Federal: No*

**I.R.C. § 25D(h) - Termination of Residential Clean Energy Credit**

This section terminates the residential clean energy tax credit by requiring eligible improvements be made by December 31, 2025, to qualify.

*Effective Date: Terminated December 31, 2025*

*Tied to Federal: No*

**I.R.C. § 179D - Termination of Energy Efficient Commercial Buildings Deduction**

This section terminates the energy efficient commercial buildings tax deduction by requiring eligible buildings or system constructions begin prior to July 1, 2026.

*Effective Date: Construction Must Begin Before July 1, 2026*

*Tied to Federal: Yes*

*Corresponding State Authority: 40-18-15(a)(21), Code of Ala. 1975*

**I.R.C. § 45L(h) - Termination of New Energy Efficient Home Credit**

This section terminates the new energy efficient home tax credit by requiring the acquisition date of eligible homes to be prior to July 1, 2026.

*Effective Date: Home Must be Acquired by a Resident Before July 1, 2026*

*Tied to Federal: No*

**I.R.C. § 168(e)(3)(B)(vi) - Termination of Cost Recovery for Energy Property**

This section terminates the special five-year cost recovery period for investments in certain solar and wind property for which construction begins after December 31, 2024.

*Effective Date: Property Which Construction Begins after December 31, 2024*

*Tied to Federal: Yes*

*Corresponding State Authority: 40-18-15(a)(8), Code of Ala. 1975*

**I.R.C. § 461(l)(1) - Modification and Extension of Limitation on Excess Business Losses of Noncorporate Taxpayers**

This section makes permanent the limitation on excess business loss (EBL) of a taxpayer other than a corporation under section 461(l) for taxable years beginning after

2025. This section also modifies the inflation adjustment to index the limitation (\$250,000 for single and \$500,000 for married filing joint) after 2025.

*Effective Date: Tax Years Beginning After December 31, 2025*

*Tied to Federal: No*

### **I.R.C. § 3134 - Enforcement Provisions with Respect to COVID Related Employee Retention Credits**

This section provides that no credit under section 3134 shall be allowed and no refund with respect to the credit shall be made after July 4, 2025, unless a claim for such credit was filed by the taxpayer on or before January 31, 2024.

*Effective Date: July 4, 2025*

*Tied to Federal: No*

### **I.R.C. § 25A(g)(1) - Social Security Number Requirements for American Opportunity and Lifetime Learning Credits**

This section requires an individual to provide a Social Security number to be eligible for the American Opportunity and Lifetime Learning tax credits.

*Effective Date: Tax Years Beginning After December 31, 2025*

*Tied to Federal: No*

### **I.R.C. § 26B(E)(1) - Permitting Premium Tax Credit Only for Certain Individuals**

This section limits a lawfully present alien's eligibility for the premium tax credit to:

- an alien who is lawfully admitted for permanent residence
- an alien who has been granted the status of Cuban and Haitian entrant
- an individual who is lawfully residing in the United States in accordance with the Compacts of Free Association between the United States and Micronesia, the Marshall Islands, and Palau

*Effective Date: Tax Years Beginning After December 31, 2026*

*Tied to Federal: No*

### **I.R.C. § 36(B)(c)(1) - Disallowing Premium Tax Credit During Periods of Medicaid Ineligibility Due to Alien Status**

This section repeals the rule that allows certain lawfully present aliens who have a household income of less than 100 percent of the federal poverty level and are ineligible for Medicaid to claim the premium tax credit.

*Effective Date: Tax Years Beginning After December 31, 2026*

*Tied to Federal: No*

**I.R.C. § 36(B)(c) - Requiring Verification of Eligibility for Premium Tax Credit**

This section requires the verification, beginning in 2028, of certain information for an individual to enroll in a health insurance plan through a health insurance exchange and to generally qualify for the premium tax credit.

*Effective Date: Tax Years Beginning After December 31, 2027*

*Tied to Federal: No*

**I.R.C. § 36B(c)(3)(A) - Disallowing Premium Tax Credit in Case of Certain Coverage Enrolled in During Special Enrollment Period**

This section provides that the premium tax credit is not allowed for any health insurance plan enrolled in through a health insurance exchange during a special enrollment period provided by such exchange (1) on the basis of the relationship between the individual's expected household income to the federal poverty level, and (2) not in connection with the occurrence of an event or change in circumstances specified by the Department of Health and Human Services for such purposes.

*Effective Date: Tax Years Beginning After December 31, 2025*

*Tied to Federal: No*

**I.R.C. § 36B(f)(2) - Eliminating Limitation on Recapture of Advance Payment of Premium Tax Credit**

This section eliminates the limit on the recapture of excess advance payments of the premium tax credit and, accordingly, allows the full amount of any such excess payments to be recaptured.

*Effective Date: Tax Years Beginning After December 31, 2025*

*Tied to Federal: No*

**I.R.C. Subparagraph (E) of § 223(c)(2) - Permanent Extension of Safe Harbor for Absence of Deductible for Telehealth Services**

This section allows individuals to establish and make tax-deductible contributions to a health savings account (HSA) if covered by a health insurance plan that provides telehealth and other remote care services without requiring a deductible but otherwise meets the requirements of a high-deductible health plan.

*Effective Date: Plan Years Beginning After December 31, 2024*

*Tied to Federal: Yes*

*Corresponding State Authority: 40-18-15.6(a)(b), Code of Ala. 1975*

**I.R.C. § 223(c)(2) - Allowance of Bronze and Catastrophic Plans in Connection with Health Savings Accounts**

This section expands eligibility to make tax-deductible HSA contributions to include individuals who have a bronze-level or catastrophic health insurance plan through a health insurance exchange.

*Effective Date: Tax Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: 40-18-15.6(a)(b), Code of Ala. 1975*

**I.R.C. § 223(c)(1) - Treatment of Direct Primary Care Service Arrangements**

This section expands eligibility to make tax-deductible HSA contributions to include individuals who have a direct primary care service arrangement with a fixed period fee that does not exceed \$150 a month per individual or \$300 a month if it covers more than one individual.

*Effective Date: Months Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: 40-18-15.6(a)(b), Code of Ala. 1975*

# Corporate Income Tax Provisions

The computation of Alabama corporate income tax begins with federal taxable income. Alabama requires various additions and subtractions to federal taxable income to arrive at Alabama taxable income. This analysis addresses the existing ties between the federal tax code and the Alabama tax code for relevant OBBBA provisions.

## **I.R.C. § 168(k) - Full Expensing for Certain Business Property**

This section permanently restores the 100 percent bonus depreciation for property acquired and placed into service on or after January 19, 2025. Bonus depreciation generally allows a business to deduct either the full cost or a large percentage of the cost of qualified property in the year that the property is placed into service, rather than depreciating such costs over a period of time.

*Effective Date: Property Placed into Service on or After January 19, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33, Code of Ala. 1975*

## **I.R.C. § 263A(d)(2)(C)(ii) - Expensing of Certain Costs of Replanting Citrus Plants Lost by Reason of Casualty**

This section extends the special rule for costs incurred by a third party in connection with replanting an edible crop for human consumption after a casualty loss.

*Effective Date: Applies to Plants Planted or Grafted After January 19, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33, Code of Ala. 1975*

## **New Section 174A - Full Expensing of Domestic Research and Experimental Expenditures**

Under current law, taxpayers must capitalize and amortize research and experimental (R&E) expenses over five years. This new section restores fully deductibility of domestic R&E expenditures in the year in which they are incurred. Foreign R&E expenses will continue to be amortized over a 15-year period. R&E expenses that are chargeable to capital accounts but not chargeable to property will be allowed to amortize over a period of not less than 60 months.

*Effective Date: Taxable Years Beginning After December 31, 2024 (Includes Retroactive Election to December 31, 2021)*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33, Code of Ala. 1975  
(see appendix A for additional information)*

**I.R.C. § 163(j)(8)(A) - Modification of Limitation on Business Interest**

This section reinstates the exclusion of the tax deduction for depreciation, amortization, or depletion from the calculation of adjusted taxable income for purposes of the limitation on the tax deduction for interest expenses for tax years beginning after December 31, 2024. This section also expands the exclusion of interest on floor plan financing from the limit on the tax deduction for business interest expenses to include interest on floor plan financing of any camper or trailer designed to (1) provide temporary living quarters for recreational, camping, or seasonal use; and (2) be towed by, or affixed to, a motor vehicle.

*Effective Date: Taxable Years Beginning After December 31, 2024*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33 and §40-18-39.1, Code of Ala. 1975 (see corresponding provisions on pages 14, 15, 16, and 31)*

**I.R.C. § 45S - Extension and Enhancement of Paid Family and Medical Leave Credit**

This section makes the business tax credit permanent for paid family and medical leave and allows employers to base the tax credit on certain wages or premiums paid. An eligible employer may claim a tax credit beginning in 2026, as part of the general business tax credit, for up to 25 percent of either (1) wages paid to qualifying employees during any period that such employees are on family and medical leave, or (2) the total amount of premiums paid or incurred for insurance policies that provide paid family and medical leave for employees.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-18-35(6), Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim a credit for those expenses.*

**I.R.C. § 274(o) - Exceptions from Limitations on Deductions for Business Meals**

An employer generally may not deduct certain expenses paid or incurred after 2025 for (1) providing food or beverages to employees through an eating facility (operated by the employer for employees) that meets the de minimis requirements for fringe benefits (e.g., office snacks and coffee), or (2) meals provided by the employer for the convenience of the employer on the employer's premises to employees and their spouses and dependents. However, an employer may continue to deduct such expenses if (1) sold to customers (including employees) for adequate and full consideration, (2) required to be provided under federal law by the employer to the crew of a commercial vessel, (3) provided by the employer to the crew of a fishing vessel, or (4) provided to employees of certain fishing processing facilities in Alaska that are not located in a metropolitan area.

*Effective Date: Amounts Paid and Incurred after December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33, Code of Ala. 1975*

*See Rule: 810-3-15-.09*

### **I.R.C. § 179 - Increased Dollar Limitations for Expensing of Certain Depreciable Business Assets**

The section increases the maximum amount a taxpayer may expense under Code section 179 to \$2.5 million (previously \$1 million) and increases the phaseout threshold from \$2.5 million to \$4 million, each amount indexed for inflation after 2025.

*Effective Date: Property Placed into Service in Taxable Years Beginning after December 31, 2024*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33, Code of Ala. 1975*

### **New Section 168(n) - Special Depreciation Allowance for Qualified Production Property**

This section allows for an optional 100 percent depreciation allowance for nonresidential real property (qualified production property). Qualified production property means that portion of any nonresidential real property where the construction begins after January 19, 2025, and before January 1, 2029.

*Effective Date: Property Placed into Service After July 4, 2025, and Before January 1, 2031*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33, Code of Ala. 1975*

### **I.R.C. § 48D(a) - Enhancement of Advanced Manufacturing Investment Credit**

This section provides an advanced manufacturing investment credit for any taxable year in an amount equal to 35 percent (amended, was 25 percent) of the qualified investment for such taxable year with respect to any advanced manufacturing facility of an eligible taxpayer.

*Effective Date: Property Placed into Service After December 31, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-18-35(6), Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim a credit for those expenses.*

### **I.R.C. § 142(a)(1) - Spaceports Are Treated Like Airports Under Exempt Facility Bond Rules**

This section expands the exclusion from gross income for interest on certain bonds issued by state or local governments (specifically tax-exempt facility bonds) to include interest on bonds for which at least 95 percent of the net proceeds are used to finance a spaceport. Spaceports are treated in the same manner as airports for the purpose of the federal tax-exempt facility bond rules.

*Effective Date: Obligations Issues After July 4, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33 and §40-18-34(b), Code of Ala. 1975*

### **I.R.C. § 904(b) - Modifications Related to Foreign Tax Credit Limitation**

This section limits the tax deductions a domestic corporate shareholder may allocate to net Controlled Foreign Corporation (CFC) tested income (formerly known as global intangible taxable income [GILTI] and renamed under Section 70323 of this act) for purposes of determining the limit on the foreign tax credit. A domestic corporation may allocate to net CFC tested income (1) the tax deduction for 40 percent of the net CFC tested income amount included by such corporation in gross income and amounts treated as dividends attributable to such amounts, and (2) any other deduction directly allocable to such income. Interest Expenses and Research and Development expenses paid by a domestic corporate shareholder cannot be apportioned to net CFC tested income.

*Effective Date: Taxable Years after December 31, 2025*

*Tied to Federal: No – see Note*

*Corresponding State Authority: §40-18-33 and §40-18-35.2, Code of Ala. 1975*

*Note: Alabama Code §40-18-35.2 retroactively decoupled from 26 U.S.C. § 951A. However, the modification adjustments determined under 40-18-35.2 should be calculated in a manner consistent with 26 U.S.C. § 951A. The deduction provided by 26 U.S.C. § 250 shall apply only to the extent the same income was included in Alabama taxable income.*

### **I.R.C. § 960 - Modifications to Determination of Deemed Paid Credit for Taxes Properly Attributable to Tested Income**

This section increases the tax credit allowed to a domestic corporation for income taxes paid by a controlled foreign corporation attributable to income included by the corporation as Subpart F income and net CFC tested income (formerly known as GILTI and renamed under Section 70323 of this act).

*Effective Date: Taxable Years after December 31, 2025*

*Tied to Federal: No – see Note*

*Corresponding State Authority: §40-18-33 and §40-18-35.2, Code of Ala. 1975*

*Note: Alabama Code §40-18-35.2 retroactively decoupled from 26 U.S.C. § 951A. However, the modification adjustments determined under 40-18-35.2 should be calculated in a manner consistent with 26 U.S.C. § 951A. The deduction provided by 26 U.S.C. § 250 shall apply only to the extent the same income was included in Alabama taxable income.*

### **I.R.C. § 904(b) - Sourcing Certain Income from the Sale of Inventory (Foreign Tax Credit)**

This section allows a percentage of the income from the sale of certain inventory to be treated as foreign-sourced income for purposes of calculating the foreign tax credit. Specifically, under this section, a U.S. person may treat as foreign-sourced income up to 50 percent of the income from the sale of inventory produced in the United States (for use outside of the United States) that is attributable to a foreign office or fixed place of business outside of the United States.

*Effective Date: Taxable Years after December 31, 2025*

*Tied to Federal: No – see Note*

*Corresponding State Authority: §40-18-33 and §40-18-35.2, Code of Ala. 1975*

*Note: Alabama Code §40-18-35.2 retroactively decoupled from 26 U.S.C. § 951A. However, the modification adjustments determined under 40-18-35.2 should be calculated in a manner consistent with 26 U.S.C. § 951A. The deduction provided by 26 U.S.C. § 250 shall apply only to the extent the same income was included in Alabama taxable income.*

### **I.R.C. § 250(a) - Modification of Deduction for Foreign-Derived Deduction Eligible Income and Net CFC Tested Income**

This section increases the tax deduction allowed to a domestic corporation for foreign-derived deduction eligible income (formerly known as foreign-derived intangible income and renamed under Section 70323 of this act) and net CFC tested income (formerly known as GILTI and renamed under Section 70323 of this act). Under this section, for tax years beginning in 2026, a domestic corporation generally may claim a tax deduction equal to the sum of (1) 33.34 percent of such corporation's foreign-derived deduction eligible income, and (2) 40 percent of such corporation's net CFC tested income.

*Effective Date: Taxable Years after December 31, 2025*

*Tied to Federal: No – see Note*

*Corresponding State Authority: §40-18-33 and §40-18-35.2, Code of Ala. 1975*

*Note: Alabama Code §40-18-35.2 retroactively decoupled from 26 U.S.C. § 951A. However, the modification adjustments determined under 40-18-35.2 should be calculated in a manner consistent with 26 U.S.C. § 951A. The deduction provided by 26 U.S.C. § 250 shall apply only to the extent the same income was included in Alabama taxable income.*

### **I.R.C. § 250(b)(3)(A)(i) and § 250(b)(5)(E) - Determination of Deduction Eligible Income**

This section excludes gains from the sale or disposition of certain property from the calculation of the tax deduction for foreign-derived deduction eligible income. Deduction eligible income (for purposes of the tax deduction for foreign-derived deduction eligible income) may not include gain from the sale or other disposition (including the deemed sale or other disposition) occurring after June 16, 2025, of (1) property of a type that gives rise to rents or royalties, and (2) any other property that is subject to depreciation, amortization, or depletion by the seller of such property. In addition, the deduction eligible income must be reduced by expenses and deductions directly related to such income.

*Effective Date: Taxable Years after December 31, 2025*

*Tied to Federal: No – see Note*

*Corresponding State Authority: §40-18-33 and §40-18-35.2, Code of Ala. 1975*

*Note: Alabama Code §40-18-35.2 retroactively decoupled from 26 U.S.C. § 951A. However, the modification adjustments determined under 40-18-35.2 should be calculated in a manner consistent with 26 U.S.C. § 951A. The deduction provided by 26 U.S.C. § 250 shall apply only to the extent the same income was included in Alabama taxable income.*

### **I.R.C. § 951(A) and § 250- Rules Related to Deemed Intangible Income**

This section eliminates the use of a domestic corporation's deemed tangible income return in determining foreign-derived intangible income and such corporation's net deemed tangible income return in determining GILTI. The term foreign-derived intangible income is renamed foreign-derived deduction eligible income and the term GILTI is renamed net CFC tested income.

*Effective Date: Taxable Years after December 31, 2025*

*Tied to Federal: No – see Note*

*Corresponding State Authority: §40-18-33 and §40-18-35.2, Code of Ala. 1975*

*Note: Alabama Code §40-18-35.2 retroactively decoupled from 26 U.S.C. § 951A. However, the modification adjustments determined under 40-18-35.2 should be calculated in a manner consistent with 26 U.S.C. § 951A. The deduction provided by 26 U.S.C. § 250 shall apply only to the extent the same income was included in Alabama taxable income.*

### **I.R.C. § 59A - Extension and Modification of Base Erosion Minimum Tax Amount**

This section decreases the Base Erosion and Anti-Abuse Tax (BEAT) rate to 10.5 percent (from 12.5 percent) for tax years beginning after 2025.

*Effective Date: Taxable Years after December 31, 2025*

*Tied to Federal: No*

### **I.R.C. § 163(j) - Coordination of Business Interest Limitation with Interest Capitalization Provisions**

Under current law, the tax deduction for business interest expenses is limited to the sum of (1) business interest income for the tax year in which the tax deduction is being claimed, (2) 30 percent of the taxpayer's adjusted taxable income, and (3) the taxpayer's floor plan financing interest. This section provides that the limitation on tax deduction of business interest is calculated before capitalizable interest is calculated.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33 and §40-18-39.1, Code of Ala. 1975 (see corresponding provisions on pages 14, 15, 16, 26, and 31)*

### **I.R.C. § 163(j)(8) - Definition of Adjusted Taxable Income for Business Interest Limitation**

This section excludes Subpart F income and net CFC tested income (formerly known as GILTI) from adjusted taxable income for purposes of calculating the limitation on the business interest tax deduction.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33 and §40-18-39.1, Code of Ala. 1975 (see corresponding provisions on pages 14, 15, 16, 26, and 31)*

### **I.R.C. § 954(c)(6)(C) - Permanent Extension of Look-Through Rule for Related Controlled Foreign Corporations**

This section permanently extends the CFC look-through rule. (Under the CFC look-through rule, certain interest expenses, dividends, rents, and royalties received by one CFC from a related CFC are not treated as foreign personal holding company income [for purposes of calculating subpart F income] if certain other requirements are met.)

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33, Code of Ala. 1975*

### **I.R.C. § 898(c) - Repeal of Election for 1-Month Deferral in Determination of Taxable Year of Specified Foreign Corporations**

This section requires a specified foreign corporation to use the taxable year of their majority U.S. shareholder, effective for tax years beginning after November 30, 2025.

*Effective Date: Taxable Years for Specified Foreign Corporations Beginning after November 30, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33, Code of Ala. 1975*

**I.R.C. § 958(b) and § 951B - Restoration of Limitation on Downward Attribution of Stock Ownership in Applying Constructive Ownership Rules/Amounts Included in Gross Income of Foreign Controlled United States Shareholders**

This section restores the limitation on downward attribution of stock ownership of former Code section 958(b)(4) when applying the constructive ownership rules. This section also adds new Code section 951B to allow downward attribution from a foreign person in cases where a U.S. shareholder owns more than 50 percent of the stock of the foreign corporation and downward attribution would apply absent the provision of Code section 958(b)(4). Provides limited regulatory authority to the Treasury Secretary for guidance that treats a foreign-controlled U.S. shareholder or a foreign-controlled foreign corporation as a U.S. shareholder or as a controlled foreign corporation, as well as to provide guidance with respect to the treatment of passive foreign investment companies.

*Effective Date: Taxable Years for Specified Foreign Corporations Beginning after December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33, Code of Ala. 1975*

**I.R.C. § 951 - Modifications to Pro Rata Share Rules**

This section provides that if a foreign corporation is a CFC at any time during the year, each U.S. shareholder must include its pro-rata share of the corporation's Subpart F income and each U.S. shareholder that owns stock in the CFC on the last day of the year must include its pro-rata share of the amount computed under Code section 956 relating to investment in earnings of U.S. property.

*Effective Date: Taxable Years for Specified Foreign Corporations Beginning after December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33 and 40-18-35(a)(7)b, Code of Ala. 1975*

**I.R.C. § 45F(a)(1) - Enhancement of Employer-Provided Child Care Credit**

This section increases the tax credit for employers that provide childcare to their employees. Under this section, the portion of the tax credit for qualified childcare expenses increases to 40 percent (from 25 percent) or to 50 percent for eligible small businesses. This section also increases the maximum amount of the tax credit to \$500,000 (from \$150,000) or \$600,000 for eligible small businesses (annually adjusted for inflation).

*Effective Date: Amounts Paid or Incurred After December 31, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-18-35(6), Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on*

*the federal income tax return because of an election to claim a credit for those expenses.*

**I.R.C. § 1400Z-1(c)(2)(B), § 6039K, § 6039L, and § 6726 - Permanent Renewal and Enhancement of Opportunity Zones**

This section permanently extends the Opportunity Zone program, establishes specific tax incentives for investments in rural areas, and modifies the rules related to deferred gains and stepped-up basis.

*Effective Date: July 4, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33 and Chapter 40-9H, Code of Ala. 1975*

*Note: This benefit is only available to an opportunity fund approved by ADECA.*

**I.R.C. § 45D(f)(1)(H) - Permanent Extension of New Markets Tax Credit**

This section permanently extends the New Markets Tax Credit (a tax credit for certain investments in eligible, low-income communities).

*Effective Date: Calendar Years Beginning After December 31, 2025*

*Tied to Federal: No*

**I.R.C. § 170(b)(2)(A) - 1 Percent Floor on Deduction of Charitable Contributions Made by Corporations**

This section further limits the tax deduction for charitable contributions made by a corporation beginning in 2026. Under this section, a tax deduction for charitable contributions made by a corporation is allowed only to the extent that the corporation's aggregate charitable contributions exceed 1 percent of the corporation's taxable income.

*Effective Date: Taxable Years Beginning after December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33, Code of Ala. 1975*

**I.R.C. § 170(n)(1) - Adjustment of Charitable Deduction for Certain Expenses Incurred in Support of Native Alaskan Subsistence Whaling**

This section increases the limit on the tax deduction for expenses incurred by a whaling captain in carrying out sanctioned bowhead whaling activities to \$50,000 (from \$10,000).

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33, Code of Ala. 1975*

### **I.R.C. § 460(e) - Exception to Percentage of Completion Method of Accounting for Certain Residential Construction Contracts**

This section allows certain residential construction contracts entered into in tax years beginning after July 4, 2025, to use another permissible method of accounting (e.g., the uniform capitalization rules), rather than the percentage of completion method of accounting.

*Effective Date: Contracts Entered into in Taxable Years Beginning After July 4, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33, Code of Ala. 1975*

### **I.R.C. § 181 - Treatment of Certain Qualified Sound Recording Productions**

This section allows qualified sound recording productions, including film, television and theatre productions to expense up to \$150,000 in costs per taxable year under Code section 181, and defines a “qualified sound recording production” as a sound recording produced in the United States. Allows qualified sound recording productions to be eligible for bonus depreciation.

*Effective Date: Productions Commencing in Taxable Years Ending After July 4, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33 and Title 41 – Chapter 7A, Code of Ala. 1975*

### **Part III of Subchapter B of Chapter 1, New Section 139L - Exclusion of Interest on Loans Secured by Rural or Agricultural Real Property**

This section provides an exclusion from gross income of 25 percent of interest income derived from qualified real-estate loans from banks insured under the Federal Deposit Insurance Act, domestic entities owned by a bank holding company, state or federally regulated insurance companies, domestic entities owned by a state law insurance holding company, and the Federal Agricultural Mortgage Corporation (Farmer Mac). This section treats 25 percent of qualified real-estate loans as tax-exempt obligations for purposes of disallowing interest deductions on indebtedness incurred by qualified lenders to purchase or carry such loans under Code section 265.

*Effective Date: Taxable Years Ending After July 4, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33, Code of Ala. 1975*

### **Part IV of subchapter O of chapter 1, New Section 1062 - Treatment of Capital Gains from the Sale of Certain Farmland Property**

This section allows a taxpayer to pay tax on any gain from the sale or exchange of qualified farmland to a qualified farmer in four equal annual installments and requires acceleration of unpaid installments upon certain conditions: in the case of an individual, if the individual dies; in the case of a C-corporation, trust or estate, if a liquidation, or

sale of substantially all of the assets or a cessation of business occurs. This section provides that in the case of a partnership or S-corporation, the election is made at the partner or shareholder level and defines qualified farmer as any individual who is actively engaged in farming.

*Effective Date: Taxable Years Beginning After July 4, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33, Code of Ala. 1975*

**I.R.C. § 856(c)(4)(B)(ii) - Restoration of Taxable REIT Subsidiary Asset Test**

This section increases the percentage of a real estate investment trust's total assets that may be held in a taxable Real Estate Investment Trust (REIT) subsidiary from 20 percent to 25 percent.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-33 and §10A-10-1.21, Code of Ala. 1975*

**I.R.C. § 45W(g) - Termination of Qualified Commercial Clean Vehicles Credit**

This section terminates the qualified commercial clean vehicle tax credit by repealing the credit for eligible vehicles acquired after September 30, 2025.

*Effective Date: Terminated September 30, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-18-35(6), Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim a credit for those expenses.*

**I.R.C. § 30C(i) - Termination of Alternative Fuel Vehicle Refueling Property Credit**

This section terminates the alternative fuel refueling property tax credit by requiring the property to be placed in service on or before June 30, 2026, to qualify.

*Effective Date: Terminated July 30, 2026*

*Tied to Federal: No*

*Corresponding State Authority: §40-18-35(6), Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim a credit for those expenses.*

**I.R.C. § 179D - Termination of Energy Efficient Commercial Buildings Deduction**

This section terminates the energy efficient commercial buildings tax deduction by requiring eligible buildings or system constructions begin prior to July 1, 2026.

*Effective Date: Construction Must Begin Before July 1, 2026*

*Tied to Federal: Yes*

*Corresponding State Authority: 40-18-33, Code of Ala. 1975*

**I.R.C. § 45L(h) - Termination of New Energy Efficient Home Credit**

This section terminates the new energy efficient home tax credit by requiring the acquisition date of eligible homes to be prior to July 1, 2026.

*Effective Date: Home Must be Acquired by a Residence Before July 1, 2026*

*Tied to Federal: No*

**I.R.C. § 168(e)(3)(B)(vi) - Termination of Cost Recovery for Energy Property**

This section terminates the special five-year cost recovery period for investments in certain solar and wind property for which construction begins after December 31, 2024.

*Effective Date: Property Which Construction Begins after December 31, 2024*

*Tied to Federal: Yes*

*Corresponding State Authority: 40-18-33, Code of Ala. 1975*

**I.R.C. § 45U(c) - Modifications of Zero-Emission Nuclear Power Production Credit**

This section disallows the zero-emission nuclear power production tax credit for certain foreign entities and foreign-influenced entities. The zero-emission nuclear power production tax credit generally is allowed for electricity produced at a qualified nuclear power facility and sold to an unrelated third person.

*Effective Date: Terminated Taxable Years After July 4, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-18-35(6), Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim a credit for those expenses.*

**I.R.C. § 45V(c)(3)(C) - Termination of Clean Hydrogen Production Credit**

This section terminates the clean hydrogen production tax credit in 2028.

*Effective Date: Terminated January 1, 2028*

*Tied to Federal: No*

*Corresponding State Authority: §40-18-35(6), Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim a credit for those expenses.*

### **I.R.C. § 45Y(d) - Termination and Restrictions on Clean Electricity Production Credit**

This section terminates the clean electricity production tax credit for (1) wind and solar facilities placed into service after December 31, 2027, and (2) certain wind energy property or solar water heating property if such property is leased to a third party during the tax year.

*Effective Date: Facilities Whose Construction Begins After July 4, 2026*

*Tied to Federal: No*

*Corresponding State Authority: §40-18-35(6), Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim a credit for those expenses*

### **I.R.C. § 48E(e) - Terminating and Restrictions on Clean Electricity Investment Credit**

This section terminates the clean electricity investment credit for (1) wind and solar property, other than energy storage technology, placed into service after December 31, 2027; and (2) certain wind energy property, solar electric property, and solar water heating property if such property is leased to a third party during the tax year.

*Effective Date: Facilities Whose Construction Begins After July 4, 2026*

*Tied to Federal: No*

*Corresponding State Authority: §40-18-35(6), Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim a credit for those expenses*

### **I.R.C. § 45X(d) - Phase-Out and Restrictions on Advanced Manufacturing Production Credit**

This section terminates the advanced manufacturing production credit for wind energy components produced and sold after 2027, and for metallurgical coal produced after 2029. This section also phases out the advanced manufacturing production tax credit for other critical minerals produced after 2030, as follows:

- 75 percent of the tax credit otherwise allowed for critical minerals produced in 2031,
- 50 percent of the tax credit otherwise allowed for critical minerals produced in 2032,
- 24 percent of the tax credit otherwise allowed for critical minerals produced in 2033, and
- 0 percent of the tax credit otherwise allowed for critical minerals produced in 2034.

Under this section, the advanced manufacturing production tax credit is not allowed for certain foreign entities and foreign-influenced entities

*Effective Date: Components Sold During Taxable Years Beginning After December 31, 2026*

*Tied to Federal: No*

*Corresponding State Authority: §40-18-35(6), Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim a credit for those expenses*

**I.R.C. § 45Z(f)(1)(A) - Extension and Modification of Clean Fuel Production Credit**

This section extends the clean fuel production tax credit through 2029 and (1) requires that clean fuels produced from feedstock use feedstock sourced from the United States, Canada, or Mexico; (2) excludes emissions attributable to an indirect land use change from the calculation of lifecycle emissions estimates (used in part of the calculation of the clean fuel production tax credit); and (3) requires the Department of the Treasury to provide emission rates for specific feedstocks used to produce clean fuels, including dairy manure, swine manure, and poultry manure.

*Effective Date: Taxable Years Beginning After July 4, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-18-35(6), Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim a credit for those expenses.*

**I.R.C. § 45Q(f) - Restrictions on Carbon Oxide Sequestration Credit**

This section increases the carbon oxide sequestration tax credit to \$17 (from \$12) per metric ton for qualified carbon dioxide used (1) as a tertiary injectant in a qualified oil or gas natural recovery project and then securely stored, or (2) by fixing such carbon dioxide through photosynthesis or chemosynthesis, chemical conversion, or for some other commercial market purpose. This section also disallows the carbon oxide sequestration tax credit for certain foreign entities and foreign-influenced entities.

*Effective Date: Taxable Years Beginning After July 4, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-18-35(6), Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim a credit for those expenses.*

**I.R.C. § 56A(c)(13) - Intangible Drilling and Development Costs Taken into Account for Purposes of Computing Adjusted Financial Statement Income**

This section allows corporations to reduce their adjusted financial statement income (for purposes of calculating the corporate alternative minimum tax) to account for certain intangible costs related to oil, gas, or geothermal well drilling and development.

*Effective Date: Tax Years Beginning After December 31, 2025*  
*Tied to Federal: No*

**I.R.C. § 162(m) - Excessive Employee Remuneration from Controlled Group Members and Allocation of Deduction**

Beginning in 2026, an entity aggregation rule is applied to the \$1 million limit on business expense deductions for employee pay when a publicly held corporation is part of a controlled group. This deduction limitation rule is generally applicable when multiple entities within the controlled group are publicly held.

*Effective Date: Taxable Years Beginning After December 31, 2025*  
*Tied to Federal: Yes*  
*Corresponding State Authority: §40-18-33, Code of Ala. 1975*

**I.R.C. § 3134 - Enforcement Provisions with Respect to COVID Related Employee Retention Credits**

This section provides that no credit under Section 3134 shall be allowed and no refund with respect to the credit shall be made after July 4, 2025, unless a claim for such credit was filed by the taxpayer on or before January 31, 2024.

*Effective Date: July 4, 2025*  
*Tied to Federal: No*

# Financial Institution Excise Tax Provisions

The computation of Alabama financial institution excise tax begins with federal taxable income. Alabama requires various additions and subtractions to federal taxable income to arrive at Alabama taxable income. This analysis addresses the existing ties between the federal tax code and the Alabama tax code for relevant OBBBA provisions.

## **I.R.C. § 168(k) - Full Expensing for Certain Business Property**

This section permanently stores the 100 percent bonus depreciation for property acquired and placed into service on or after January 19, 2025. Bonus depreciation generally allows a business to deduct either the full cost or a large percentage of the cost of qualified property in the year that the property is placed into service, rather than depreciating such costs over a period of time.

*Effective Date: Property Placed into Service on or After January 19, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

## **I.R.C. § 263A(d)(2)(C)(ii) - Expensing of Certain Costs of Replanting Citrus Plants Lost by Reason of Casualty**

This section extends the special rule for costs incurred by a third party in connection with replanting an edible crop for human consumption after a casualty loss.

*Effective Date: Applies to Plants Planted or Grafted After January 19, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

## **New Section 174A - Full Expensing of Domestic Research and Experimental Expenditures**

Under current law, taxpayers must capitalize and amortize research and experimental (R&E) expenses over five years. This new section restores fully deductibility of domestic R&E expenditures in the year in which they are incurred. Foreign R&E expenses will continue to be amortized over a 15-year period. R&E expenses that are chargeable to capital accounts but not chargeable to property will be allowed to amortize over a period of not less than 60 months.

*Effective Date: Taxable Years Beginning After December 31, 2024 (Includes*

*Retroactive Election to December 31, 2021)*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975  
(see appendix A for additional information)*

**I.R.C. § 163(j)(8)(A) - Modification of Limitation on Business Interest**

This section reinstates the exclusion of the tax deduction for depreciation, amortization, or depletion from the calculation of adjusted taxable income for purposes of the limitation on the tax deduction for interest expenses for tax years beginning after December 31, 2024. This section also expands the exclusion of interest on floor plan financing from the limit on the tax deduction for business interest expenses to include interest on floor plan financing of any camper or trailer designed to (1) provide temporary living quarters for recreational, camping, or seasonal use; and (2) be towed by, or affixed to, a motor vehicle.

*Effective Date: Taxable Years Beginning After December 31, 2024*

*Tied to Federal: No – see Note*

*Corresponding State Authority: §40-16-1(3) and §40-16-1.2, Code of Ala. 1975 (see corresponding provisions on page 45 and 46)*

*Note: Modification adjustments required under §40-16-1.2 should be calculated in accordance with the updated provisions of 26 U.S.C. § 163(j) as amended by the OBBBA.*

**I.R.C. § 45S - Extension and Enhancement of Paid Family and Medical Leave Credit**

This section makes the business tax credit permanent for paid family and medical leave and allows employers to base the tax credit on certain wages or premiums paid. An eligible employer may claim a tax credit beginning in 2026, as part of the general business tax credit, for up to 25 percent of either (1) wages paid to qualifying employees during any period that such employees are on family and medical leave, or (2) the total amount of premiums paid or incurred for insurance policies that provide paid family and medical leave for employees.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-16-1.2, Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim credit for those expenses.*

**I.R.C. § 274(o) - Exceptions from Limitations on Deductions for Business Meals**

An employer generally may not deduct certain expenses paid or incurred after 2025 for (1) providing food or beverages to employees through an eating facility (operated by the employer for employees) that meets the de minimis requirements for fringe benefits (e.g., office snacks and coffee), or (2) meals provided by the employer for the convenience of the employer on the employer's premises to employees and their spouses and dependents. However, an employer may continue to deduct such expenses if (1) sold to customers (including employees) for adequate and full consideration, (2) required to be provided under federal law by the employer to the crew of a commercial vessel, (3) provided by the employer to the crew of a fishing vessel, or

(4) provided to employees of certain fishing processing facilities in Alaska that are not located in a metropolitan area.

*Effective Date: Amounts Paid and Incurred after December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

### **I.R.C. § 179 - Increased Dollar Limitations for Expensing of Certain Depreciable Business Assets**

The section increases the maximum amount a taxpayer may expense under Code section 179 to \$2.5 million (previously \$1 million) and increases the phaseout threshold from \$2.5 million to \$4 million, each amount indexed for inflation after 2025.

*Effective Date: Property Placed into Service in Taxable Years Beginning after December 31, 2024*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

### **New Section 168(n) - Special Depreciation Allowance for Qualified Production Property**

This section allows for an optional 100 percent depreciation allowance for nonresidential real property (qualified production property). Qualified production property means that portion of any nonresidential real property where the construction begins after January 19, 2025, and before January 1, 2029.

*Effective Date: Property Placed into Service After July 4, 2025, and Before January 1, 2031*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

### **I.R.C. § 48D(a) - Enhancement of Advanced Manufacturing Investment Credit**

This section provides an advanced manufacturing investment credit for any taxable year in an amount equal to 35 percent (amended, was 25 percent) of the qualified investment for such taxable year with respect to any advanced manufacturing facility of an eligible taxpayer.

*Effective Date: Property Placed into Service After December 31, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-16-1.2, Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim credit for those expenses.*

### **I.R.C. § 142(a)(1) - Spaceports are Treated Like Airports Under Exempt Facility Bond Rules**

This section expands the exclusion from gross income for interest on certain bonds issued by state or local governments (specifically tax-exempt facility bonds) to include interest on bonds for which at least 95 percent of the net proceeds are used to finance a spaceport. Spaceports are treated in the same manner as airports for the purpose of the federal tax-exempt facility bond rules.

*Effective Date: Obligations Issues After July 4, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3) and §40-16-1.2, Code of Ala. 1975*

### **I.R.C. § 904(b) - Modifications Related to Foreign Tax Credit Limitation**

This section limits the tax deductions a domestic corporate shareholder may allocate to net Controlled Foreign Corporation (CFC) tested income (formerly known as global intangible taxable income [GILTI] and renamed under Section 70323 of this act) for purposes of determining the limit on the foreign tax credit. A domestic corporation may allocate to net CFC tested income (1) the tax deduction for 40 percent of the net CFC tested income amount included by such corporation in gross income and amounts treated as dividends attributable to such amounts, and (2) any other deduction directly allocable to such income. Interest Expenses and Research and Development expenses paid by a domestic corporate shareholder cannot be apportioned to net CFC tested income.

*Effective Date: Taxable Years after December 31, 2025*

*Tied to Federal: No – see Note*

*Corresponding State Authority: §40-16-1(3) and §40-16-1.2, Code of Ala. 1975*

*Note: Alabama Code §40-16-1.2 was added in the Financial Excise Tax Reform Act of 2019. However, the modification adjustments determined under §40-16-1.2 should be calculated in a manner consistent with 26 U.S.C. § 951A and 26 U.S.C. § 250.*

### **I.R.C. § 960 - Modifications to Determination of Deemed Paid Credit for Taxes Properly Attributable to Tested Income**

This section increases the tax credit allowed to a domestic corporation for income taxes paid by a controlled foreign corporation attributable to income included by the corporation as Subpart F income and net CFC tested income (formerly known as GILTI and renamed under Section 70323 of this act).

*Effective Date: Taxable Years after December 31, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

*Note: Alabama Code §40-16-1.2 was added in the Financial Excise Tax Reform Act of 2019. However, the modification adjustments determined under §40-16-1.2 should be calculated in a manner consistent with 26 U.S.C. § 951A and 26 U.S.C. § 250.*

### **I.R.C. § 904(b) - Sourcing Certain Income from the Sale of Inventory (Foreign Tax Credit)**

This section allows a percentage of the income from the sale of certain inventory to be treated as foreign-sourced income for purposes of calculating the foreign tax credit. Specifically, under this section, a U.S. person may treat as foreign-sourced income up to 50 percent of the income from the sale of inventory produced in the United States (for use outside of the United States) that is attributable to a foreign office or fixed place of business outside of the United States.

*Effective Date: Taxable Years after December 31, 2025*

*Tied to Federal: No – see Note*

*Corresponding State Authority: §40-16-1(3) and §40-16-1.2, Code of Ala. 1975*

*Note: Alabama Code §40-16-1.2 was added in the Financial Excise Tax Reform Act of 2019. However, the modification adjustments determined under §40-16-1.2 should be calculated in a manner consistent with 26 U.S.C. § 951A and 26 U.S.C. § 250.*

### **I.R.C. § 250(a) - Modification of Deduction for Foreign-Derived Deduction Eligible Income and Net CFC Tested Income**

This section increases the tax deduction allowed to a domestic corporation for foreign-derived deduction eligible income (formerly known as foreign-derived intangible income and renamed under Section 70323 of this act) and net CFC tested income (formerly known as GILTI and renamed under Section 70323 of this act). Under this section, for tax years beginning in 2026, a domestic corporation generally may claim a tax deduction equal to the sum of (1) 33.34 percent of such corporation's foreign-derived deduction eligible income, and (2) 40 percent of such corporation's net CFC tested income.

*Effective Date: Taxable Years after December 31, 2025*

*Tied to Federal: No – see Note*

*Corresponding State Authority: §40-16-1(3) and §40-16-1.2, Code of Ala. 1975*

*Note: Alabama Code §40-16-1.2 was added in the Financial Excise Tax Reform Act of 2019. However, the modification adjustments determined under §40-16-1.2 should be calculated in a manner consistent with 26 U.S.C. § 951A and 26 U.S.C. § 250.*

### **I.R.C. § 250(b)(3)(A)(i) and § 250(b)(5)(E) - Determination of Deduction Eligible Income**

This section excludes gains from the sale or disposition of certain property from the calculation of the tax deduction for foreign-derived deduction eligible income. Deduction eligible income (for purposes of the tax deduction for foreign-derived deduction eligible income) may not include gain from the sale or other disposition (including the deemed sale or other disposition) occurring after June 16, 2025, of (1) property of a type that gives rise to rents or royalties, and (2) any other property that is subject to depreciation, amortization, or depletion by the seller of such property. In addition, the deduction

eligible income must be reduced by expenses and deductions directly related to such income.

*Effective Date: Taxable Years after December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

### **I.R.C. § 951(A), 250 - Rules Related to Deemed Intangible Income**

This section eliminates the use of a domestic corporation's deemed tangible income return in determining foreign-derived intangible income and such corporation's net deemed tangible income return in determining GILTI. The term foreign-derived intangible income is renamed foreign-derived deduction eligible income and the term GILTI is renamed net CFC tested income.

*Effective Date: Taxable Years after December 31, 2025*

*Tied to Federal: No – see Note*

*Corresponding State Authority: §40-16-1(3) and §40-16-1.2, Code of Ala. 1975*

*Note: Alabama Code §40-16-1.2 was added in the Financial Excise Tax Reform Act of 2019. However, the modification adjustments determined under §40-16-1.2 should be calculated in a manner consistent with 26 U.S.C. § 951A and 26 U.S.C. § 250.*

### **I.R.C. § 59A - Extension and Modification of Base Erosion Minimum Tax Amount**

This section decreases the Base Erosion and Anti-Abuse Tax (BEAT) rate to 10.5 percent (from 12.5 percent) for tax years beginning after 2025.

*Effective Date: Taxable Years after December 31, 2025*

*Tied to Federal: No*

### **I.R.C. § 163(j) - Coordination of Business Interest Limitation with Interest Capitalization Provisions**

Under current law, the tax deduction for business interest expenses is limited to the sum of (1) business interest income for the tax year in which the tax deduction is being claimed, (2) 30 percent of the taxpayer's adjusted taxable income, and (3) the taxpayer's floor plan financing interest. This section provides that the limitation on tax deduction of business interest is calculated before capitalizable interest is calculated.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: No – see Note*

*Corresponding State Authority: §40-16-1(3) and §40-16-1.2, Code of Ala. 1975*

*(see corresponding provisions on page 41 and 46)*

*Note: Alabama Code §40-16-1.2 was added in the Financial Excise Tax Reform Act of 2019. However, the modification adjustments determined under §40-16-1.2 should be calculated in a manner consistent with 26 U.S.C. § 163(j).*

### **I.R.C. § 163(j)(8)- Definition of Adjusted Taxable Income for Business Interest Limitation**

This section excludes Subpart F income and net CFC tested income (formerly known as GILTI) from adjusted taxable income for purposes of calculating the limitation on the business interest tax deduction.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: No – see Note*

*Corresponding State Authority: §40-16-1(3) and §40-16-1.2, Code of Ala. 1975 (see corresponding provisions on page 41 and 45)*

*Note: Alabama Code §40-16-1.2 was added in the Financial Excise Tax Reform Act of 2019. However, the modification adjustments determined under §40-16-1.2 should be calculated in a manner consistent with 26 U.S.C. § 163(j).*

### **I.R.C. § 954(c)(6)(C) - Permanent Extension of Look-Through Rule for Related Controlled Foreign Corporations**

This section permanently extends the CFC look-through rule. (Under the CFC look-through rule, certain interest expenses, dividends, rents, and royalties received by one CFC from a related CFC are not treated as foreign personal holding company income [for purposes of calculating subpart F income] if certain other requirements are met.)

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

### **I.R.C. § 898(c) - Repeal of Election for 1-Month Deferral in Determination of Taxable Year of Specified Foreign Corporations**

This section requires a specified foreign corporation to use the taxable year of their majority U.S. shareholder, effective for tax years beginning after November 30, 2025.

*Effective Date: Taxable Years for Specified Foreign Corporations Beginning after November 30, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

### **I.R.C. § 958(b) and § 951B - Restoration of Limitation on Downward Attribution of Stock Ownership in Applying Constructive Ownership Rules/Amounts Included in Gross Income of Foreign Controlled United States Shareholders**

This section restores the limitation on downward attribution of stock ownership of former Code section 958(b)(4) when applying the constructive ownership rules and adds new Code section 951B to allow downward attribution from a foreign person in cases where a U.S. shareholder owns more than 50 percent of the stock of the foreign corporation and downward attribution would apply absent the provision of Code section 958(b)(4).

This section provides limited regulatory authority to the Treasury Secretary for guidance that treats a foreign-controlled U.S. shareholder or a foreign-controlled foreign

corporation as a U.S. shareholder or as a controlled foreign corporation, as well as to provide guidance with respect to the treatment of passive foreign investment companies.

*Effective Date: Taxable Years for Specified Foreign Corporations Beginning after December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

### **I.R.C. § 951 - Modifications to Pro Rata Share Rules**

This section provides that if a foreign corporation is a CFC at any time during the year, each U.S. shareholder must include its pro-rata share of the corporation's Subpart F income and each U.S. shareholder that owns stock in the CFC on the last day of the year must include its pro-rata share of the amount computed under Code section 956 relating to investment in earnings of U.S. property.

*Effective Date: Taxable Years for Specified Foreign Corporations Beginning after December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3) and 40-16-1.2(3), Code of Ala. 1975*

### **I.R.C. § 45F(a)(1) - Enhancement of Employer-Provided Child Care Credit**

This section increases the tax credit for employers that provide childcare to their employees. Under this section, the portion of the tax credit for qualified childcare expenses increases to 40 percent (from 25 percent) or to 50 percent for eligible small businesses. This section also increases the maximum amount of the tax credit to \$500,000 (from \$150,000) or \$600,000 for eligible small businesses (adjusted for inflation).

*Effective Date: Amounts Paid or Incurred After December 31, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-16-1.2, Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim credit for those expenses.*

### **I.R.C § 1400Z-1(c)(2)(B), § 6039K, § 6039L, and § 6726 - Permanent Renewal and Enhancement of Opportunity Zones**

This section permanently extends the Opportunity Zone program, establishes specific tax incentives for investments in rural areas, and modifies the rules related to deferred gains and stepped-up basis.

*Effective Date: July 4, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3) and Chapter 40-9H, Code of Ala. 1975*

*Note: This benefit is only available to an opportunity fund approved by ADECA.*

**I.R.C. § 170(b)(2)(A) - 1 Percent Floor on Deduction of Charitable Contributions Made by Corporations**

This section further limits the tax deduction for charitable contributions made by a corporation beginning in 2026. Under this section, a tax deduction for charitable contributions made by a corporation is allowed only to the extent that the corporation's aggregate charitable contributions exceed 1 percent of the corporation's taxable income.

*Effective Date: Taxable Years Beginning after December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

**I.R.C. § 170(n)(1) - Adjustment of Charitable Deduction for Certain Expenses Incurred in Support of Native Alaskan Subsistence Whaling**

This section increases to \$50,000 (from \$10,000) the limit on the tax deduction for expenses incurred by a whaling captain in carrying out sanctioned bowhead whaling activities.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

**I.R.C. § 460(e) - Exception to Percentage of Completion Method of Accounting for Certain Residential Construction Contracts**

This section allows certain residential construction contracts entered into in tax years beginning after July 4, 2025, to use another permissible method of accounting (e.g., the uniform capitalization rules), rather than the percentage of completion method of accounting.

*Effective Date: Contracts Entered into in Taxable Years Beginning After July 4, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

**I.R.C. § 181 - Treatment of Certain Qualified Sound Recording Productions**

This section allows qualified sound recording productions, including film, television and theatre productions to expense up to \$150,000 in costs per taxable year under Code section 181, and defines a "qualified sound recording production" as a sound recording produced in the United States. Allows qualified sound recording productions to be eligible for bonus depreciation.

*Effective Date: Productions Commencing in Taxable Years Ending After July 4, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3) and Title 41 – Chapter 7A, Code of Ala. 1975*

**Part III of Subchapter B of Chapter 1, New Section 139L - Exclusion of Interest on Loans Secured by Rural or Agricultural Real Property**

This section excludes from gross income 25 percent of interest income derived from qualified real-estate loans from banks insured under the Federal Deposit Insurance Act, domestic entities owned by a bank holding company, state or federally regulated insurance companies, domestic entities owned by a state law insurance holding company, and the Federal Agricultural Mortgage Corporation (Farmer Mac). Treats 25 percent of qualified real-estate loans as tax-exempt obligations for purposes of disallowing interest deductions on indebtedness incurred by qualified lenders to purchase or carry such loans under Code section 265.

*Effective Date: Taxable Years Ending After July 4, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

**Part IV of Subchapter O of Chapter 1, New Section 1062 - Treatment of Capital Gains from the Sale of Certain Farmland Property**

This section allows a taxpayer to pay tax on any gain from the sale or exchange of qualified farmland to a qualified farmer in four equal annual installments and requires acceleration of unpaid installments upon certain conditions: in the case of an individual, if the individual dies; in the case of a C-corporation, trust or estate, if a liquidation, or sale of substantially all of the assets or a cessation of business occurs. Provides that in the case of a partnership or S-corporation, the election is made at the partner or shareholder level. Defines qualified farmer as any individual who is actively engaged in farming.

*Effective Date: Taxable Years Beginning After July 4, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

**I.R.C. § 856(c)(4)(B)(ii) - Restoration of Taxable REIT Subsidiary Asset Test**

This section increases the percentage of a real estate investment trust's total assets that may be held in a taxable Real Estate Investment Trust (REIT) subsidiary from 20 percent to 25 percent.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3) and §10A-10-1.21, Code of Ala. 1975*

**I.R.C. § 45W(g) - Termination of Qualified Commercial Clean Vehicles Credit**

This section terminates the qualified commercial clean vehicle tax credit by repealing the credit for eligible vehicles acquired after September 30, 2025.

*Effective Date: Terminated September 30, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-16-1.2, Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim credit for those expenses.*

### **I.R.C. § 30C(i) - Termination of Alternative Fuel Vehicle Refueling Property Credit**

This section terminates the alternative fuel refueling property tax credit by requiring the property to be placed in service on or before June 30, 2026, to qualify.

*Effective Date: Terminated July 30, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-16-1.2, Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim credit for those expenses.*

### **I.R.C. § 179D - Termination of Energy Efficient Commercial Buildings Deduction**

This section terminates the energy efficient commercial buildings tax deduction by requiring eligible buildings or system constructions begin prior to July 1, 2026.

*Effective Date: Construction Must Begin Before July 1, 2026*

*Tied to Federal: Yes*

*Corresponding State Authority: 40-16-1(3), Code of Ala. 1975*

### **I.R.C. § 168(e)(3)(B)(vi) - Termination of Cost Recovery for Energy Property**

This section terminates the special five-year cost recovery period for investments in certain solar and wind property for which construction begins after December 31, 2024.

*Effective Date: Property Which Construction Begins after December 31, 2024*

*Tied to Federal: Yes*

*Corresponding State Authority: 40-16-1(3), Code of Ala. 1975*

### **I.R.C. § 45U(c) - Modifications of Zero-Emission Nuclear Power Production Credit**

This section disallows the zero-emission nuclear power production tax credit for certain foreign entities and foreign-influenced entities. The zero-emission nuclear power production tax credit generally is allowed for electricity produced at a qualified nuclear power facility and sold to an unrelated third person.

*Effective Date: Terminated Taxable Years After July 4, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-16-1.2, Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim credit for those expenses.*

### **I.R.C. § 45V(c)(3)(C) - Termination of Clean Hydrogen Production Credit**

This section terminates the clean hydrogen production tax credit in 2028 and, thus, the tax credit is allowed only for clean hydrogen production facilities for which construction begins before January 1, 2028.

*Effective Date: Terminated January 1, 2028*

*Tied to Federal: No*

*Corresponding State Authority: §40-16-1.2, Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim credit for those expenses.*

### **I.R.C. § 45Y(d) - Termination and Restrictions on Clean Electricity Production Credit**

This section terminates the clean electricity production tax credit for (1) wind and solar facilities placed into service after December 31, 2027, and (2) certain wind energy property or solar water heating property if such property is leased to a third party during the tax year.

*Effective Date: Facilities Whose Construction Begins After July 4, 2026*

*Tied to Federal: No*

*Corresponding State Authority: §40-16-1.2, Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim credit for those expenses.*

### **I.R.C. § 48E(e) - Terminating and Restrictions on Clean Electricity Investment Credit**

This section terminates the clean electricity investment credit for (1) wind and solar property, other than energy storage technology, placed into service after December 31, 2027; and (2) certain wind energy property, solar electric property, and solar water heating property if such property is leased to a third party during the tax year.

*Effective Date: Facilities Whose Construction Begins After July 4, 2026*

*Tied to Federal: No*

*Corresponding State Authority: §40-16-1.2, Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim credit for those expenses.*

### **I.R.C. § 45X(d) - Phase-Out and Restrictions on Advanced Manufacturing Production Credit**

This section terminates the advanced manufacturing production credit for wind energy components produced and sold after 2027, and for metallurgical coal produced after 2029. This section also phases out the advanced manufacturing production tax credit for other critical minerals produced after 2030, as follows:

- 75 percent of the tax credit otherwise allowed for critical minerals produced in 2031,
- 50 percent of the tax credit otherwise allowed for critical minerals produced in 2032,
- 24 percent of the tax credit otherwise allowed for critical minerals produced in 2033, and
- 0 percent of the tax credit otherwise allowed for critical minerals produced in 2034.

Under this section, the advanced manufacturing production tax credit is not allowed for certain foreign entities and foreign-influenced entities

*Effective Date: Components Sold During Taxable Years Beginning After December 31, 2026*

*Tied to Federal: No*

*Corresponding State Authority: §40-16-1.2, Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim credit for those expenses.*

#### **I.R.C. § 45Z(f)(1)(A) - Extension and Modification of Clean Fuel Production Credit**

This section extends the clean fuel production tax credit through 2029 and (1) requires that clean fuels produced from feedstock use feedstock sourced from the United States, Canada, or Mexico; (2) excludes emissions attributable to an indirect land use change from the calculation of lifecycle emissions estimates (used in part of the calculation of the clean fuel production tax credit); and (3) requires the Department of the Treasury to provide emission rates for specific feedstocks used to produce clean fuels, including dairy manure, swine manure, and poultry manure.

*Effective Date: Taxable Years Beginning After July 4, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-16-1.2, Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim credit for those expenses.*

#### **I.R.C. § 45Q(f) - Restrictions on Carbon Oxide Sequestration Credit**

This section increases the carbon oxide sequestration tax credit to \$17 (from \$12) per metric ton for qualified carbon dioxide used (1) as a tertiary injectant in a qualified oil or gas natural recovery project and then securely stored or (2) by fixing such carbon dioxide through photosynthesis or chemosynthesis, chemical conversion, or for some other commercial market purpose. This section also disallows the carbon oxide sequestration tax credit for certain foreign entities and foreign-influenced entities.

*Effective Date: Taxable Years Beginning After July 4, 2025*

*Tied to Federal: No*

*Corresponding State Authority: §40-16-1.2, Code of Ala. 1975. An additional deduction may be allowed for expenses otherwise deductible that were not deducted on the federal income tax return because of an election to claim credit for those expenses.*

**I.R.C. § 56A(c)(13) - Intangible Drilling and Development Costs Taken into Account for Purposes of Computing Adjusted Financial Statement Income**

This section allows corporations to reduce their adjusted financial statement income (for purposes of calculating the corporate alternative minimum tax) to account for certain intangible costs related to oil, gas, or geothermal well drilling and development.

*Effective Date: Tax Years Beginning After December 31, 2025*

*Tied to Federal: No*

**I.R.C. § 162(m) - Excessive Employee Remuneration from Controlled Group Members and Allocation of Deduction**

This section provides that beginning in 2026, an entity aggregation rule is applied to the \$1 million limit on business expense deductions for employee pay when a publicly held corporation is part of a controlled group. This deduction limitation rule is generally applicable when multiple entities within the controlled group are publicly held.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-16-1(3), Code of Ala. 1975*

**I.R.C. § 3134 - Enforcement Provisions with Respect to COVID Related Employee Retention Credits**

This section provides that no credit under section 3134 shall be allowed and no refund with respect to the credit shall be made after July 4, 2025, unless a claim for such credit was filed by the taxpayer on or before January 31, 2024.

*Effective Date: July 4, 2025*

*Tied to Federal: No*

# Tax Exempt Entity Provisions

## **I.R.C. § 4968 – Modification of Excise Tax on Investment Income of Certain Private Colleges and Universities**

This section replaces the excise tax of 1.4 percent imposed on the net investment income of certain private university and college endowments with a new rate structure of 1.4 percent, 4 percent, or 8 percent, depending on several variables including the value of the endowment and the number of full-time students who meet certain other requirements.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: No*

## **I.R.C. § 4960(c)(2) - Expanding Application of Tax on Excess Compensation within Tax-Exempt Organizations**

This section expands the excise tax imposed on certain tax-exempt organizations for excess compensation paid to certain employees (an employee who is one of the top five highest compensated employees of such organization) to include excess compensation paid to any employee of such organization. A tax-exempt organization is liable for an excise equal to the corporate tax rate [21 percent] multiplied by the sum of remuneration in excess of \$1 million and excess parachute payment paid to any employee by the tax-exempt organization.

*Effective Date: Taxable Years Beginning After December 31, 2025*

*Tied to Federal: No*

## **I.R.C. § 45D(f)(1)(H) - Permanent Extension of New Markets Tax Credit**

This section permanently extends the New Markets Tax Credit (a tax credit for certain investments in eligible, low-income communities).

*Effective Date: Calendar Years Beginning After December 31, 2025*

*Tied to Federal: No*

## **I.R.C. § 3134 - Enforcement Provisions with Respect to COVID Related Employee Retention Credits**

This section provides that no credit under section 3134 shall be allowed and no refund with respect to the credit shall be made after July 4, 2025, unless a claim for such credit was filed by the taxpayer on or before January 31, 2024.

*Effective Date: July 4, 2025*

*Tied to Federal: No*

## Miscellaneous Tax Provisions

### **I.R.C. § 42(h)(3)(I) - Permanent Enhancement of Low-Income Housing Tax Credit**

This section increases eligibility for the low-income housing tax credit (LIHTC) by increasing the amount that a state may allocate for the LIHTC and reducing the tax-exempt bond financing threshold. Under this section, beginning in 2026, the portion of the federal allocation to each state for the LIHTC that is based on the state's population is increased by 12 percent.

*Effective Date: Will Apply to Buildings Placed in Service in Taxable Years Beginning After December 31, 2025*

*Tied to Federal: No*

### **I.R.C. § 7652(f) - Permanent Increase in Limitation on Cover Over of Tax on Distilled Spirits**

This section reinstates and makes permanent (beginning in 2026) the \$13.25 (currently \$10.50) per proof gallon limit on the amount that is transferred by the United States to Puerto Rico and the U.S. Virgin Islands for excise taxes collected on distilled spirits (e.g., rum) imported from Puerto Rico and the U.S. Virgin Islands.

*Effective Date: Applies to Distilled Spirits Brought into the United States After December 31, 2025*

*Tied to Federal: No*

### **Subchapter F of Chapter 1 - Nonprofit Community Development Activates in Remote Native Villages**

This section treats participation or investment in fisheries (e.g., harvesting, processing, transportation, sales, and marketing of fish and fish products) in the Bering Sea and Aleutian Islands by certain tax-exempt Alaskan villages as substantially related to the village's tax-exempt purpose and income gained from such activities remains tax-exempt.

*Effective Date: July 4, 2025*

*Tied to Federal: No*

### **I.R.C. § 6050W(e) - Repeal of Revision to De Minimis Rules for Third Party Network Transactions**

This section modifies the reporting requirements applicable to third-party settlement organizations (e.g., certain online platforms, apps, and card payment processors). Under this section, such organizations are required to issue Internal Revenue Service (IRS) Form 1099-K to payees who receive more than \$20,000 from more than 200 separate transactions.

*Effective Date: Calendar Years Beginning After December 31, 2024*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-23-261, Code of Ala. 1975*

**I.R.C. § 6041(a) - Increase in Threshold for Requiring Information Reporting with Respect to Certain Payees**

This section expands the federal tax deduction for certain film, television, and theatrical production costs to allow a deduction of up to \$150,000 of qualified sound recording production costs in the tax year such costs are incurred. A qualified sound recording production is a sound recording that is produced and recorded in the United States.

*Effective Date: Payments Made After December 31, 2025*

*Tied to Federal: Yes*

*Corresponding State Authority: §40-18-26 and §40-18-91, Code of Ala. 1975*

**I.R.C. § 5811(a), 5821(a), 4182(a) - Reduction of Transfer and Manufacturing Taxes for Certain Devices (firearms, silencers)**

This section eliminates the \$200 excise tax imposed on the transfer of certain firearms other than machine guns and destructive devices (e.g., bombs, grenades, certain rockets, missiles, and mines). The \$200 excise tax is not applicable to silencers, short-barreled rifles and short-barreled shotguns.

*Effective Date: Calendar Quarters Beginning 90 days after July 4, 2025*

*Tied to Federal: No*

**I.R.C. § 48C(e)(3)(c) - Restriction on the Extension of Advanced Energy Project Credit Program**

This section provides that if the certification for any credit under I.R.C § 48C is revoked (e.g., because a project was not timely placed in service), the credits allocated to such project may not be reallocated to other projects.

*Effective Date: July 4, 2025*

*Tied to Federal: No*

**I.R.C. § 7704(d)(1)(E) - Income from Hydrogen Storage, Carbon Capture, Advanced Nuclear, Hydropower, and Geothermal Energy Added to Qualifying Income of Certain Publicly Traded Partnerships**

This section expands qualifying income for publicly traded partnerships to include income and gains from: (1) the production of electricity or thermal energy using geothermal or qualified hydropower production, or (2) the operation of equipment used to produce, distribute, or use energy derived from a geothermal deposit and which uses the ground or ground water as a thermal energy source to heat a structure or as a thermal energy sink to cool a structure.

*Effective Date: Tax Years Beginning After December 31, 2025*  
*Tied to Federal: No*

**I.R.C. Subchapter B of Chapter 65, New Section 6435 - Allow for Payments to Certain Individuals Who Dye Fuel**

This section provides for a refund of previously imposed and paid excise taxes upon the transfer of nontaxable, indelibly dyed diesel fuel or kerosene used for agricultural, off-road, or other nontaxable purposes.

*Effective Date: Applies to Eligible Indelibly Dyed Diesel Fuel or Kerosene Removed on or After 180 Days After July 4, 2025*  
*Tied to Federal: No*

**I.R.C. § 321 - Modifications to De Minimis Entry Privilege for Commercial Shipments**

This section eliminates the exemption from certain duties, fees, and processes for imports of up to \$800 effective July 1, 2027. In addition, this section establishes a civil penalty for entering, introducing, facilitating, or attempting to introduce an article into the United States using the de minimis exemption in a manner that violates U.S. customs laws. The amount of the civil penalty is up to \$5,000 for the first violation and up to \$10,000 for subsequent violations.

*Effective Date: Terminated July 1, 2027*  
*Tied to Federal: No*

**I.R.C. § 707(a)(2) - Treatment of Payments from Partnerships to Partners for Property or Services**

This section clarifies that the rules under I.R.C. § 707(a), regarding the treatment of payments to partners for property or services, are self-executing and are not dependent on the issuance of Treasury Regulations.

*Effective Date: Applies to Services Performed, and Property Transferred, after July 4, 2025*  
*Tied to Federal: Yes*  
*Corresponding State Authority: §40-18-24(a), Code of Ala. 1975*

**IRC Chapter 36, New Subchapter C - Remittance Transfers, Section 4475 - Excise Tax on Certain Remittance Transfers**

This section establishes a 1 percent excise tax on transfers of payments from one country to another. The excise tax is imposed on the sender of the remittance transfer and collected and remitted to the Department of the Treasury on a quarterly basis by the transfer provider. The excise tax applies only to remittance transfers for which the sender provides cash, a money order, a cashier's check, or other similar physical instrument to the transfer provider. The excise tax does not apply to remittance

transfers if (1) the funds are withdrawn from an account held at certain financial institutions, or (2) funded with a debit card or credit card issued in the United States.

*Effective Date: Tax Years Beginning After December 31, 2025*

*Tied to Federal: No*

### **Task Force on the Replacement of Direct File**

This section directs the Internal Revenue Service to deliver a report to Congress on tax filing programs.

Specifically:

- the cost of enhancing and establishing public-private partnerships that provide for free tax filing for up to 70 percent of all taxpayers
- the cost to replace any direct e-file programs run by the Internal Revenue Service
- taxpayer opinions and preferences regarding a taxpayer-funded, government-run tax filing service or a free tax filing service provided by the private sector
- assessment of the feasibility of providing simple and consistent options across participating tax filing providers
- the cost of developing and running a free direct e-file tax return system

### **I.R.C. § Section 1397ee - Rural Health Transformation Programs**

This section provides \$10 billion per fiscal year for FY2026-FY2030 for a program that supports the provision of health care in rural areas. Under the program, states may apply for funds to improve the access and quality of care of services in rural areas. States must submit detailed rural health transformation plans and certify that no funds will be used to finance the non-federal share of Medicaid or CHIP. Applications must be approved or denied by December 31, 2025; states that receive approval do not need to reapply each year. States are not required to contribute any matching funds with respect to program allotments.

*Effective Date: Fiscal Year 2026-2030*

*Tied to Federal: No*

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## Appendix A

### NOTICE

September 11, 2025

## Research and Experimental Expenditures

The Tax Cuts and Jobs Act (TCJA) of 2017 amended I.R.C. §174 to require taxpayers to capitalize and amortize their Research and Experimental (R&E) expenses over a five-year or 15-year period for domestic and foreign costs, respectively. The changes to I.R.C. §174 apply to R&E expenses paid or incurred in tax years beginning after Dec. 31, 2021.

Effective retroactively for expenditures incurred on or after January 1, 2024, § 40-18-62, Code of Ala. 1975, decouples from I.R.C. §174 in favor of providing taxpayers an option to currently deduct R&E expenditures or treat the expenses in the same manner as I.R.C. §174 before the TCJA amendments took effect in tax year 2022.

To claim a deduction on the Alabama return for the expenditures made on or after January 1, 2024, the full amount of the R&E expenditures can be taken as a deduction on the Alabama return. **The annual amount amortized and deducted on the federal return must be added back to taxable income; this addition will need to be made for each year until the remaining amount is fully amortized.**

The One, Big, Beautiful Bill Act (OBBBA) was signed into law July 4, 2025; the act amended I.R.C. §174 and added I.R.C. §174A which provides the option to fully expense domestic R&E expenditures for tax periods beginning after December 31, 2024. The new I.R.C. §174A(f)(2) also provides for a write-off provision for previously capitalized and unamortized amounts from the 2022-2024 tax years. On the 2025 federal return, taxpayers may deduct the remaining unamortized amounts in full or ratably over a two-year period. For 2025 — and 2026 if option (ii) under I.R.C. §174A(f)(2) is elected — these expenses will need to be added back to Alabama income to the extent they were previously deducted on the 2024 Alabama return due to § 40-18-62, Code of Ala. 1975.

## Instructions by Form

### C Corporations (Form 20C):

To claim a deduction on Form 20C, the full amount of the R&E expenditure can be taken as a deduction on Form 20C, Schedule A Deductions, Line 24. The annual amount amortized and deducted on the federal return must be added back to taxable income on Form 20C, Schedule A Additions, Line 10.

### Financial Institutions (Form ET-1):

To claim a deduction on Form ET-1, the full amount of the R&E expenditure can be taken as a deduction on Form ET-1, Schedule A Deductions, Line 24. The annual amount amortized and deducted on the federal return must be added back to taxable income on Form ET-1, Schedule A Additions, Line 9.

**S Corporations (Form 20S):**

To claim a deduction on Form 20S, the full amount of the R&E expenditure can be taken as a deduction on Form 20S, Schedule A Deductions, Line 10 (Other reconciling items). The annual amount amortized and deducted on the federal return must be added back to taxable income on Form 20S, Schedule A Additions, Line 3 (Other reconciling items).

**Partnerships/LLEs (Form 65):**

To claim a deduction on Form 65, the full amount of the R&E expenditure can be taken as a deduction on Form 65, Schedule A Deductions, Line 9 (Other reconciling items). The annual amount amortized and deducted on the federal return must be added back to taxable income on Form 65, Schedule A Additions, Line 3 (Other reconciling items).

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**Contact**

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