

Year End 2025 Accounting and Tax Update

As we near year end, dealers should start to think about how tax and accounting changes may affect their business. 2025 had some tax changes with the One Big Beautiful Bill Act but luckily general accounting rules had no major changes this year. Accounting rules saw significant changes with Revenue Recognition in 2021, Leases in 2022 and Current Expected Credit Losses ("CECL") in 2023, so no major accounting rule changes for 2025 is a nice break.

The One Big Beautiful Bill ("OBBBA") was signed into law in July 2025 and renewed many tax provisions that were expiring and added additional tax provisions. Some of the key provisions affecting dealers are as follows:

2017 Tax Cuts and Jobs Act

Firstly, the OBBBA make many of the 2017 Tax Cuts and Jobs act permanent including the larger standard deduction, larger child tax credit, lower ordinary individual tax rates. Perhaps more important for dealers is the QBI deduction, which was made permanent by the OBBBA and allows owners of pass-through entities (S Corporation, partnerships and Sole Proprietors) to deduct up to 20% of their business income on their personal return. The QBI deduction is an important deduction for dealers as most dealers are setup as a pass-through entity. If, however a dealer is setup as a C corporation, the tax rate on a C corporation remains low at 21%.

Green Energy Tax Credits

The OBBBA ends almost all green energy tax credit including credits on energy efficient appliances, solar and electric vehicles. Dealers were even able to claim tax credits for the sale of used EV's but those programs, along with tax credits for new EV's, are ending.

Bonus Depreciation

The OBBBA allows up to 100% bonus depreciation on short-lived fixed assets such as equipment and heavy vehicles. This can be a great tax deduction for dealers who needed to buy new equipment anyway, but I would never advise buying unnecessary equipment or vehicles just to get a tax deduction. Bonus depreciation does not apply to long term assets such as land and buildings but can apply to certain building improvements (Qualified Improvement Property) with a recovery period of under 20 years.

Net Operating Loss Carry Forward

Net operating losses continue to be capped at 80%, meaning that if a dealer has net operating losses from a prior year, they may only utilize 80% of those losses and 20% of the dealer's current income will remain taxable.

SALT Deduction

The 2017 Tax Cuts and Jobs Act limited the deduction of state and local taxes ("SALT") to \$10,000 which caused significant problems for individuals living in states with high state income taxes. OBBBA temporarily increases this deduction to \$40,000 which should help tax payers in those states.

Auto Loan Interest Deduction

Consumers who finance a new vehicle that was final assembled in the United States, may claim an additional tax deduction for the interest paid on that auto loan. Unfortunately, this deduction does not apply to used vehicle financing.

No Tax on Overtime

OBBBA allows a deduction of up to \$12,500 of overtime compensation when calculating an individual's taxable income. This deduction is temporary through 2028 and adds some complex reporting requirements to employers and employees for correctly tracking and reporting hours worked.

1099 Reporting

Starting in 2026, the threshold for 1099 non-employee compensation will be raised from \$600 to \$2,500 which will help reduce the number of 1099's a business needs to issue each year.

Ultimately the OBBBA didn't have any massive tax reduction provisions, but rather kept the status quo. Dealers should contact their tax professional now to discuss any tax deferral strategies that could be implemented by year end and ultimately existing tools like related finance companies and reinsurance companies continue to be the best tax deferral strategies that exist.

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