6 Shifts In Trump Tax Law May Lend A Hand To M&A Strategy

By **Randy Clark and Devan Patrick** (October 21, 2025, 3:59 PM EDT)

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The One Big Beautiful Bill Act introduces a number of tax changes that will likely affect how M&A deals are structured, valued and negotiated by both buyers and sellers.

In many instances, the changes in the act have a positive impact on M&A transactions by preserving or expanding key tax benefits and aligning the parties' interests.

This article addresses six changes in the OBBBA — signed into law July 4 — which could affect the M&A landscape. It also provides key takeaways for dealmakers navigating this new environment.

1. Returning to a Previous Standard

The Tax Cuts and Jobs Act created a new interest expense limitation in Internal Revenue Code Section 163(j).[1] The provision generally capped the amount of deductible business interest expense for most businesses at 30% of their adjusted taxable income.[2]

For tax years beginning before 2022, depreciation and amortization were added back to taxable income when computing adjusted taxable income, resulting in a limitation generally equivalent to 30% of earnings before interest, taxes, depreciation and amortization, or EBITDA.

For tax years beginning after 2021, the limitation was more restrictive, no longer permitting adding back depreciation and amortization and then resulting in a limitation generally equivalent to 30% of earnings before interest and tax.[3]

This had a universally negative result for taxpayers and particularly affected capital-intensive businesses.

Effective for tax years starting after Dec. 31, 2024, the OBBBA permanently restores the original TCJA calculation for limiting business interest expense deductions to an EBITDA-like formula.

This change generally increases, in some cases significantly, the deductible portion of business interest expense payments for many taxpayers.[4]

This change is a major win for financial buyers who commonly rely on leverage in their transactions as part of their investment model. While not as significant as a full repeal of the Code Section 163(j) limitation, which remains an important offset to the costs of the TCJA and factored into the cost of implementing the OBBBA, increased deductibility directly leads to tax savings and additional free cash flow.

This change also benefits sellers, as additional free cash flow can support greater leverage and support higher deal values.

2. Full Bonus Depreciation and an Expanded Code Section

The OBBBA permanently restores 100% bonus depreciation for qualified property acquired and placed in service after Jan. 19.[5] This reverses the scheduled phaseout of bonus depreciation, which would have dropped the rate to 40% in 2025 under the TCJA.

This allows for the immediate expensing of most depreciable tangible property and certain intangible property, including vehicles, furniture, heavy equipment, and similar assets.

Additionally, the OBBBA significantly enhances Code Section 179 expensing: The deduction cap is doubled from $1.25 million to $2.5 million, and the phase-out threshold is increased from $2.5 million to $4 million.[6]

The bill also introduces a new 100% depreciation allowance for qualified production property, covering costs related to acquiring nonresidential real property used for manufacturing, production, or refining of qualified products, provided construction begins after Jan. 19, 2025, and before Jan. 1, 2029.[7]

While buyers might generally prefer asset transactions in order to better insulate post-closing operations from historical liabilities, the changes in the OBBBA make asset transactions even more attractive.

From a tax perspective, buyers in an asset transaction can reset tax basis of acquired assets to fair market value, and this restoration of 100% immediate expensing through bonus depreciation and/or Code Section 179 expensing significantly accelerates the recovery of their investment.

The ability to immediately expense acquired assets yields higher cash flows in the critical early years post-acquisition, often when leverage is highest.

Additionally, in competitive bid scenarios, the increased net present value of these tax benefits may justify a buyer that is otherwise tax-positive offering a seller a higher purchase price, especially for capital-intensive targets in industries like manufacturing likely to generate increased tax savings for the buyer.

For sellers, while a business with qualified assets becomes more attractive, selling assets exposes a seller to depreciation recapture. Gains from the sale of a depreciated asset are generally recharacterized as ordinary income to the extent of prior depreciation deductions taken on the asset.

While corporations pay a flat federal rate of tax, individuals are generally eligible for preferential rates of tax on long-term capital gains, so owners of a pass-through business engaging in an asset sale may be subject to a higher blended rate of tax in an asset sale.[8] This makes the allocation of the purchase price a critical negotiation point in structuring M&A deals.

3. Immediate Expensing of a Key Domestic Cost

The TCJA required companies to capitalize and amortize research and experimentation expenditures for taxable years after Dec. 31, 2021. Domestic R&E expenditures were generally required to be amortized over five years, and foreign R&E expenditures were generally required to be amortized over 15 years.

The OBBBA restores, and makes permanent, the ability to take immediate deductions for domestic R&E costs, effective for tax years starting after Dec. 31, 2024.[9]

Despite the changes affecting domestic R&E expenditures, foreign R&E spending is still required to be capitalized and amortized over 15 years.[10] Furthermore, taxpayers are generally permitted to elect to deduct previously capitalized domestic R&E expenses over an elective one- or two-year period.[11]

This restoration of immediate expensing directly affects after-tax earnings and cash flow, particularly for businesses that are heavy in R&E, such as biotech, technology and manufacturing.

Immediate expensing reduces the tax drag on cash flow resulting from the amortization requirement, freeing up capital for reinvestment or acquisitions.

R&E-heavy companies may now be more attractive acquisition targets due to their enhanced free cash flow, which can lead to higher valuations in innovation-driven sectors. The permanent nature of the change also facilitates planning for capital expenditures.

However, the difference in treatment between domestic R&E, or immediate deduction, and foreign R&E, or 15-year amortization, may affect how companies approach their allocation of research spending between U.S. and foreign locations and their evaluation of U.S. and foreign acquisition targets.

4. Expansion of Qualified Small Business Stock Eligibility

The OBBBA significantly expands Code Section 1202's tax benefits for qualified small business stock, or QSBS, but these expanded benefits apply only to stock issued on or after July 5, 2025.

Three major changes are introduced.

The first is tiered QSBS benefits. The OBBBA establishes a phased gross income exclusion based on the holding period of the QSBS, moving away from the previous five-year all-or-nothing requirement.

Taxpayers benefit from a 50% gain exclusion for QSBS held more than three years and a 75% gain exclusion for QSBS held more than four years, while the historic 100% exclusion continues to apply for shares held more than five years.[12]

The second is the increased exclusion cap. The OBBBA increases the dollar-based per-issuer gain exclusion cap from $10 million to $15 million and indexes that for inflation.[13]

The final major change is the increased gross asset threshold. The corporate-level gross asset threshold to determine whether an issuer can issue QSBS is raised from $50 million to $75 million, which threshold is also indexed for inflation.[14]

For sellers, the tiered exclusion offers additional flexibility for timing a liquidity event. Historically, a seller owning QSBS faced a difficult choice when evaluating offers prior to the five-year QSBS clock, comparing the after-tax consequences of waiting to realize QSBS benefits against the risk of the offer remaining available.

The new tiered exclusion allows for partial tax benefits, helping to correct some of the misalignment that the five-year on/off switch for QSBS previously created.

For buyers, the increase in the gross asset threshold dramatically increases the pool of potential targets that could qualify for a QSBS structure, expanding eligibility beyond early-stage growth companies and lower-middle market targets.

Additionally, a buyer's ability to structure into QSBS for their own benefit may make rollover equity more attractive, as sellers contributing stock into a holding company or merging into larger platforms may more easily retain QSBS benefits or become newly eligible in the buyer's structure.

5. Permanent Qualified Business Income Deduction

The OBBBA provides additional certainty for owners of pass-through entities by making the 20% qualified business income deduction, or QBI, permanent at its current rate.[15]

Introduced by the TCJA, the deduction for noncorporate taxpayers was previously scheduled to expire after 2025, creating significant uncertainty for choice-of-entity planning.

The QBI deduction aimed to maintain parity between pass-through entities and C corporations after the TCJA reduced the corporate tax rate to a flat 21%.

However, the uncertainty resulting from the planned expiration date of the deduction meant that any choice-of-entity planning based on tax rates and reinvestment of after-tax profits had a limited time horizon.

Because the QSBS rules and the Code Section 199A rules generally apply to the same types of nonservice businesses,[16] founders were often faced with a difficult decision of whether to start with a C corporation and plan for a five-year exit and potential double tax, or to structure into a pass-through business and receive a temporary tax benefit.

While the QBI deduction can help reduce the overall tax burden on business owners, it is also relevant to income generated in asset sale transactions. This application can be useful in fixed asset-heavy industries like manufacturing, where depreciation recapture might otherwise create a significant tax impediment to an asset sale transaction.

A lower anticipated tax burden for sellers typically leads to smoother transaction negotiations.

With more certainty around their operational and exit tax strategies, taxpayers can set up or retool their choice-of-entity plans to decide on a corporate or pass-through strategy that fits their goals without the impact of a time limitation on the benefits of that strategy.

6. Maintaining Deductibility and a Crucial Adjustment

The final version of the OBBBA was also notable for what it did not address, in particular proposals that would have restricted certain benefits of states' pass-through entity tax, or PTET, systems.

Relatedly, the OBBBA temporarily raises the federal state and local tax deduction cap for individual itemized deductions from $10,000 to $40,000 for tax years 2025 through 2029.[17] This temporary increase is phased down for high-income taxpayers and reverts back to $10,000 after 2029.[18]

The preservation of the status quo on PTET deductions is significant for M&A activity.

Originally intended to address the application of the state and local tax deduction cap, a PTET election often provided a benefit to sellers in an asset sale transaction, as those transactions generally permitted larger deductions of state and local taxes paid by a pass-through entity making a PTET election than would have been available to an individual seller.

PTET regimes then make sellers more willing to structure deals as asset sales, as they can achieve comparable or higher after-tax proceeds as compared to equity sales.

Conclusion

The OBBBA does not fundamentally reshape the M&A tax landscape, but it is expected to create a more favorable deal environment. Each permanent change offers a benefit or a simplification for common M&A tax issues and generally results in better alignment between buyers and sellers.

Factoring the OBBBA's changes into the negotiation of deal pricing and structure will be critical. Dealmakers on both sides can benefit from early engagement of tax advisers, especially when operating in fixed asset-heavy industries.

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[1] References herein to the "Code" are to the Internal Revenue Code of 1986, as amended.

[2] Code Section 163(j)(1)(B).

[3] These limitations were included in former Code Section 163(j)(8)'s definition of ATI. ATI historically excluded, and continues to exclude, income, gain, deduction or loss which is not properly allocable to a trade or business, any net operating loss deduction, any qualified business income deduction, and inclusions in income under the U.S. anti-deferral rules.

[4] Code Section 163(j)(8)(A)(v).

[5] Code Section 168(k)(10).

[6] Code Section 179(b).

[7] Code Section 168(n).

[8] State tax aspects can also have an impact here. For example, the recently enacted WA-state capital gains tax does not apply to ordinary income, mitigating some of the federal impact of depreciation recapture. Many states also have a pass-through entity tax system, discussed below, for which the increased deductibility of taxes in an asset sale may offset the cost of ordinary income due to depreciation recapture.

[9] Code Section 174A.

[10] Code Sections 263(a)(1)(B) and174(a)(2)(B).

[11] Code Section 70302(f)(2)(A). In addition, certain small business can retroactively apply full expensing. The IRS has provided guidance around these changes and resulting impact on accounting methods in Rev. Proc. 2025-28, 2025-38 I.R.B. 393.

[12] Code Section 1202(a)(5).

[13] Code Section 1202(b)(4)(B).

[14] Code Section 1202(d)(1).

[15] Code Section 199A(a).

[16] See Code Section 199A(d)(2)(A) (incorporating certain 1202 non-service business into qualified trades or businesses for QBI purposes).

[17] Code Section 164(b)(7).

[18] Code Section 164(b)(7)(A)(iv).