

GROWERTALKS

Features

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Planning to Profit From the OBBBA

Mark E. Battersby



The new Budget Reconciliation law, called the One Big Beautiful Bill Act (OBBBA), contained measures that strengthen crop insurance and boost trade programs that indirectly benefit the horticultural industry by creating a healthier overall agricultural economy. Of most interest to growers, nurseries and retailers, however, are the many tax breaks.

The OBBBA prevents a more than \$4 trillion tax hike from occurring at the end of this year by extending, and making permanent, many of the temporary tax cuts of the 2017 Tax Cuts and Jobs Act (TCJA). One such benefit involves pass-through income.

Pass-through businesses

Under the OBBBA, a more favorable tax rate for the income of pass-through businesses—such as sole proprietorships, partnerships and S corporations—is now in effect permanently. The OBBBA makes permanent the deduction for greenhouse and retail businesses operating as pass-through entities, allowing a deduction of up to 20% of their qualified business income.

To ensure eligible small business owners can access an enhanced baseline deduction, there's a new inflation-adjusted minimum deduction of \$400 for taxpayers with at least \$1,000 in qualified, pass-through business income.

Partnership technicalities

The tax rules have long governed services and property transfers (or disguised sales) between a partner and his/her partnership, requiring them to be treated as “arms-length transactions.” Under the OBBBA, a simple technical clarification makes arms-length rules apply “except as provided” by the Treasury Secretary.

This action expands those rules, making them applicable unless guidance provides an exception. The clarification applies to services performed and transactions occurring after the date of enactment (July 4, 2025).

Depreciation write-offs

One of the key elements of the 2017 TCJA was a 100% bonus depreciation write-off that allowed businesses to immediately deduct the full cost of business equipment. Unfortunately, that 100% deduction was reduced year-after-year.

Today, 100% bonus depreciation is back. What's more, the deduction will apply through 2029 for property acquired

after January 19, 2025.

In addition to bonus depreciation, the OBBBA doubles the current Section 179 first year expensing deduction from \$1,250,000 to \$2,500,000 and increases the asset acquisition limit from the current \$3,130,000 to \$4,000,000. In other words, the full deduction would be phased out should your operation's equipment or other asset purchases reach the \$4,000,000 ceiling. The increases will take effect for 2025.

Qualified production property

Designed to fuel domestic manufacturing, the OBBBA allows 100% bonus depreciation for some real property that's used in qualified production activities (QPA). While this incentive is compelling, the question every grower should ask is: What constitutes qualified production property (QPP) and how can it benefit my operation?

This significant expansion of Bonus Depreciation for some real property allows domestic manufacturers to immediately expense qualified property at 100%. Under the new rules, the term "qualified production activity" means "the manufacturing, production or refining of a qualified product if the activity results in a substantial transformation of the property comprising the product." Further refining QPA, the section states that "production" shall only include agricultural and chemical production activities.

According to the lawmakers, in order to qualify, the property must be used as an integral part of a qualified production activity, such as developing, improving, installing (if combined with other activity), growing, extracting or creating. QPP doesn't include property used for offices, parking, administrative services, sales activities, research activities, software development, engineering activities or any other non-QPA activity.

QPP is a temporary tax incentive under the OBBBA designed to encourage domestic manufacturing through significant depreciation benefits for qualifying real estate. Every grower should carefully evaluate their operation's eligibility.

Overtime for workers

Unless exempt, employees covered by the Fair Labor Standards Act (FLSA) must receive overtime pay for hours worked over 40 in a workweek at a rate not less than time and one half their regular rates of pay. Individuals who are properly classified as executive, administrative or professional employees are considered "exempt employees" and aren't required to be paid for overtime.

After a failed attempt to increase the minimum threshold for the overtime exemption, it has reverted to \$35,568 per year (\$484 per week). Employees earning below this threshold are generally entitled to overtime pay.

Now, however, the OBBBA has created a new tax deduction for overtime pay. Workers making less than \$150,000 can deduct as much as \$12,500 for single filers and \$25,000 for those filing jointly. Unfortunately, this deduction begins to phase out for single filers earning \$150,000 or more and for joint filers earning \$300,000 or more and will expire in 2029.

You should remember that overtime is still considered as wages for FICA tax purposes, meaning that wages are still subject to Social Security and Medicare tax. What's more, workers can only deduct overtime that's reported on a W-2 form.

This year, 2025, is a "transition year" that allows employers to approximate overtime using a "reasonable method." Starting in 2026, employers must report qualified overtime separately on W-2 and 1099 forms.

While there will likely be updated IRS withholding tables and changes to W-2, 1099 and W-4 forms, there may be

uncertainty about how employers can distinguish “qualified” vs. “general” overtime given the varying state labor laws.

Energy deductions lack longevity

Businesses planning on “going green” will face new adjustments in many energy-related tax provisions. Tax credits for wind and solar projects will, for instance, phase out much sooner. To qualify, these projects must be completed by the end of 2027. Other properties that fall under the heading of green energy-producing assets, recycling and storage, will no longer be considered five-year properties for depreciation purposes.

Now, these energy-related assets will be subject to depreciation using the general class lifetime rules. While any property placed in service prior to December 31, 2024 can continue using five-year depreciation, others will be required to depreciate assets and properties over longer periods, resulting in smaller depreciation expenses in earlier years.

Research & development

The OBBBA reinstates the immediate deduction for all domestic R&D expenses that boost productivity, sustainability and profitability. For nursery and greenhouse businesses, R&D might focus on improving crop yields and quality, developing advanced technologies, implementing sustainable practices, energy efficiency, automation and robotics, or advanced materials and design.

As a change from the existing law that requires a five year amortization period, the OBBBA reinstates the immediate deductions for all domestic R&D expenses, such as salaries for R&D staff, costs of materials used in research and payments to third-party contractors for R&D services.

The OBBBA allows every business that paid or incurred domestic R&D expenses in tax years beginning on or after January 1, 2022, and before January 1, 2025, to elect to deduct any remaining unamortized amount over a one period or rateably over a two-year period (at the taxpayer’s election), accelerating the benefit of such expenses.

Greenhouse or retail businesses with gross receipts under \$31 million will be permitted to amend their returns from 2022 through 2024 to remove the capitalization of domestic R&D.

Calculating losses

A little-known and often overlooked provision in the tax law limits an individual taxpayer’s ability to offset business-related losses against non-business income. Under the rules, business losses may offset business income, but any net business loss can, indexed for inflation, only offset \$313,00 of non-business income. This year it’s \$626,000 for joint filers.

While originally scheduled to expire in 2028, the OBBBA permanently extends the rules while resetting the inflation adjustment to the amount of non-business income that can be offset to the original \$250,000 (\$300,000 for joint filers) in 2026 with inflation adjustments beginning in subsequent years.

Losses that aren’t allowed in the current year can, of course, be carried forward to the following year as net operating losses (NOLs).

The bottom line

The TCJA created a tax credit for compensating employees while they’re on family or medical leave as long as the business had a qualified plan for those payments. The OBBBA permanently extended this credit while expanding it.

Under the new rules, the charitable donations of incorporated businesses will, beginning in 2026, have a new 1% floor, with only contribution amounts above that amount as deductible. The 10% ceiling for total annual contributions

remains. Fortunately, contributions exceeding the 10% limit can be carried forward for up to five years.

On a more personal note, the OBBBA also permanently increased the estate, gift and generation skipping transfer tax (GSTT) exemption to \$15 million. This change will allow greater amounts to be passed as gifts or inheritances beginning in 2026 when the new exemption kicks in.

The OBBBA offers both potential benefits and challenges for greenhouse growers and garden center retailers, who should evaluate the bill's impact on their operations and planning at both the federal and state levels. Seeking assistance for help with both planning and reaping the potential tax savings is strongly recommended. **GT**

Mark E. Battersby is a freelance writer who specializes in business finance. He can be reached at mebatt12@earthlink.net