2026 National Income Tax Workbook

Chapter 15 – New Legislation
PP 596 - 603

Land Grant University
Tax Education Foundation

1

New Law – Business Tax Issues

- Business Interest Expense Limit
- Bonus Depreciation
- Qualified Production Property
- Employee vs Independent Contractor
- Marijuana Businesses
- Fringe Benefits – nonpersonal use vehicles

2

596

Business Interest Limitation

Fact Sheet 2025 -09 Updated frequently asked questions regarding IRC 163 Interest Limitation



3

Last years slide

Limitations on Business Interest deduction

p. 596

Business Interest deduction is limited to the sum of:

1. Business Interest Income
2. 30% of Adjusted Taxable Income (ATI)
3. Floor plan financing interest

Tax software will take care of this



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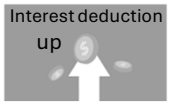
Last years slide

Limitations on Business Interest deduction

p. 596

OBBBA:

- Adjustable Taxable Income – add back depreciation, amortization and depletion (Reverses a change made in 2022)



- Floor Plan financing exception applies to trailers and campers that are designed to provide temporary living quarters. Designed to be towed.
- Applies to tax years after 12/31/24

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Rev. Proc. 2026-17

597

163(j) limits deductible business interest to sum of:

- Business interest income
- 30% of Adjusted Taxable Income
- Floor Plan Interest

Changed so less limitation

Limit does **not** apply to:

- IRC 448(c) Gross Receipts Test
- Electing real property/farming businesses
- Regulated utilities

Taxpayers may not want to elect out anymore

6

Rev. Proc. 2026-17 (March 18, 2026) 597

Problem! Electing Businesses must use ADS depreciation and cannot claim bonus depreciation!

What changed? OBBBA restored the ability to add back depreciation, amortization and depreciation in ATI (years after 2024)

Result: Electing businesses may no longer be subject to the limit, have a smaller limit, and now want to elect out.

7

Withdrawing the 163(j)(7) election 597

☑ Available for elections made in 2022, 2023 or 2024

File an amended return, amended 1065 or Administrative Adjustment request by the **earlier of**:

- The end of the applicable statute of limitations for the year being amended
- October 15, 2026 ← To Late

X

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Notice 2026-11 - Bonus Depreciation 597 & 598

OBBBA made 100% bonus depreciation permanent for property acquired after January 19, 2025. Or:

☑ Can elect not to deduct bonus depreciation

☑ Can elect to deduct 40% for first tax year after January 19, 2025

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Qualified Sound Recording Productions

598



OBBBA allows a deduction of up to 150,000 of qualified sound recording production costs

Productions commencing before 1/1/26 in tax years ending after 7/4/25.

Sound recordings now included in the definition of "qualified property" for bonus depreciation.

X

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Notice 2026-16

598

Notice provides guidance on the deduction for "Qualified Production Property".

Applies to QPP placed in service after July 4, 2025

Deduction equals 100% of adjusted basis

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Bonus Depreciation

598

Equipment



Yes

Qualified Production Property



Maybe

Building



No

12

Last year's slide

Special depreciation allowance for qualified production property

599

Build the property for manufacturing



Purchase the property to convert to manufacturing



13

Last year's slide

Special depreciation allowance for qualified production property

599

Built property:

Some key points:

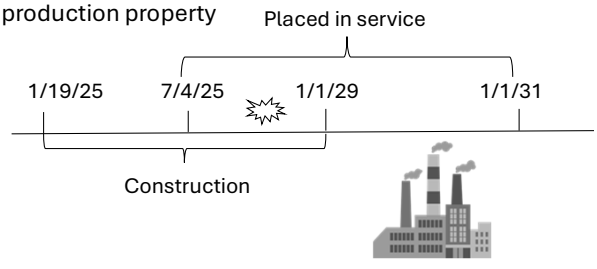
- Election in year property placed in service
- Non-residential real property:
  - Integral part of qualified manufacturing/production activity
  - In US or possession of US
  - Original use commences with taxpayer

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Last year's slide

Special depreciation allowance for qualified production property

599



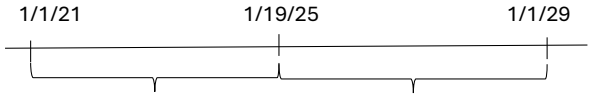
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Special rule

Last year's slide

599

Purchased property:



Property not used in a qualified production activity ***by any person***

Purchase property and convert to manufacturing

(not purchased from a related person or in a nonrecognition transaction)

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599

Definition of Qualified Production Property

Does not include portions of the property used for: Office, administrative services, lodging, parking, sales activities, research, software development engineering, other functions unrelated to manufacturing.

Substantial transformation of the product

Production – only agriculture and chemicals

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Definition of Qualified Production Property

599

- "Property" means a single unit of property; building and structural component
- Excludes ADS property and ineligible property
- De minimis rule: if 95% meet test, entire property qualifies
- Property used by Lessee does not qualify
- Reasonable allocation methods: square footage, cost segregation, engineering plans

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Qualified Production Activity- guidance 599

- QPA includes activities that don't themselves transform the product, if essential to completing the QPA.
- **Tax ownership** of the qualified product is not required (Ie: contract manufacturing)
- **Manufacturing:** materially change form/function to create a new item

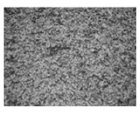
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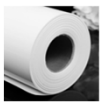
Qualified Production Activity- guidance 600

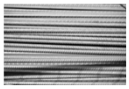
- **Refining:** purifying a substance into a higher value product
- **Agricultural Production:** preparing soil planting, cultivating/harvesting crops, raising levestock

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QPA examples – substantial transformation 600


Wood pulp


paper

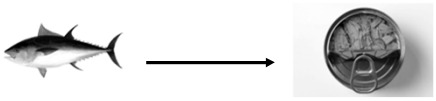

Steel rods


screws/bolts

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substantial transformation

600



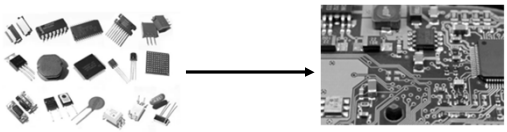
Fresh tuna canned tuna

22

Not substantial transformation

600

Grouping and packaging of multiple finished goods for sale as a single item:



Individual electronic parts bundled electronics

23

Time and manner of making election

600

By due date

Attach statement:

- Name and EIN
- For each property:
  - Address and description
  - Total unadjusted basis of the property
  - If less than 100% of entire property, dollar amount and description
  - Dollar amount designated as QPP property

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Recapture 601

2025 (long period to keep track of this!) 2035

If the property is no longer used in manufacturing prior to 10 years, the special depreciation allowance is recaptured just like 1245 property. The amount recaptured is added to basis for depreciation purposes.

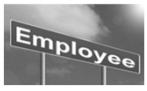
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Employee vs Independent Contractor 601

Department of Labor is proposing:

- A new rule to classify workers as employee vs independent contractor
- Rescind 2024 independent contract rule and replace it with a "streamline analysis"



vs



26

Proposed Rules 601

Economic Reality Test:
In business for themselves vs economically dependent on an employer

Two core factors:

- Worker's control over the work
- Worker's opportunity for profit or loss based on incentive or investment

27

Proposed Rules

601

Three additional factors (when the two core factors do not point to the same classification)

- Amount of skill required
- Degree of permanence of the working relationship
- Whether the work is part of an integrated unit of production

28

Proposed Rules

601

Propose to provide 8 examples of how economic reality factors would apply to certain real life situations.

Actual practices are more relevant than the contractual terms

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Remember,

≠

X

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Marijuana Businesses

602



Executive Order #14370
December 18, 2025

Big deal or no?

AG Order No. 6754-2026
April 23, 2026

Change to Section 280E limitation or no?

31

Background

602

Controlled Substance Act - 3 categories:

- Schedule I
- Schedule II

Section 280E disallows deductions and credits

- Schedule III - Section 280E does not disallow deductions and credit

32

Executive Order #14370

602

DOES

Increases Medical Marijuana and CBD research



DOES NOT

- Decriminalize marijuana
- Legalize its use
- Alter application of Section 280E



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Executive Order #14370

602

DOES

- Expand Federal research
- Directs Federal agencies to streamline approvals
- Increase access to research-grade Cannabis
- Consider rescheduling of marijuana from Schedule I to Schedule III

DOES NOT

- Change marijuana's legal status
- Affect current tax treatment

34

Executive Order #14370

602

DOES

Emphasizes Medical-use marijuana

DOES NOT

Does not apply, at this time, to recreational-use marijuana

But, expanded research could influence future legislative or regulatory development.

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Executive Order #14370

602

DOES



Signal

DOES NOT



Change

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AG Order 6754-2026

602

order signed on April 23, 2026

Directed DOJ and DEA to begin implementing the researched focus framework

Clarifies the narrow scope of the rescheduling at this stage.

37

AG Order 6754-2026

602

DOES	**DOES NOT**
Made clear that only FDA-approved, medically indicated marijuana-derived product qualifies for immediate movement from Schedule I to Schedule III.	Rescheduling is not extended to Recreational Marijuana such as cannabis flower, extracts, edibles, etc.., even if sold in medical programs
Targeted, narrow	***Not broad***

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Good news / Bad news

602

GOOD	**BAD**
A business may have revenue from Schedule III products exempt from 280E	More cost accounting to segregate activities More compliance duties under Controlled Substance Act. Far more complex Enhanced security

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NEW

In September, Treasury and IRS listed 280E guidance among their priorities.

X

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Nonpersonal Use Vehicles 603

- IRC 274(d) requires substantiation for vehicles. But, regulation exempt nonpersonal use vehicles from recordkeeping, such as: clearly marked police, fire, public safety owned or leased by government. Also includes unmarked law enforcement vehicles.
- Final regulations add UNMARKED vehicles used by firefighters, members of rescue squad or ambulance crew



Exempt from 274(d) ⟶



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Unmarked vehicles used for commuting 602



Used for commuting



Change to regulations under 132. Commuting using these vehicles is a working condition fringe benefit excluded from gross income.

X

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Chapter 13 – Rates and Tables

Turn to page 489



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Provisions indexed





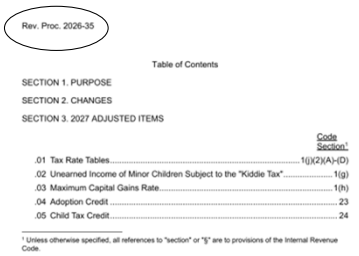
Provisions not indexed to inflation



Makes a huge difference!

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2027 Rates



Rev. Proc. 2026-35

Table of Contents

SECTION 1. PURPOSE
SECTION 2. CHANGES
SECTION 3. 2027 ADJUSTED ITEMS

	Code Section[1]
.01 Tax Rate Tables	1(j)(2)(A)-(D)
.02 Unearned Income of Minor Children Subject to the "Kiddie Tax"	1(g)
.03 Maximum Capital Gains Rate	1(h)
.04 Adoption Credit	23
.05 Child Tax Credit	24

[1] Unless otherwise specified, all references to "section" or "§" are to provisions of the Internal Revenue Code.

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490 – 494 Tax Rates

Capital gains rate zero up to 98,900

2027 – 102,100

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495 - 2026 Mileage rate

January 1 – June 30	72.5/mile
July 1 - December 31	76.0/mile

2027 – not out yet

48

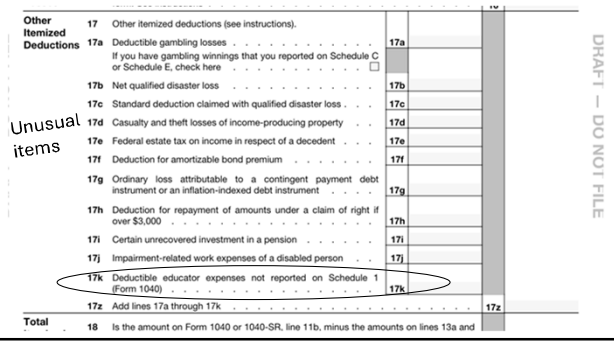
498 Educator Expense Deduction

2026 – 350 (up from 300 in 2025)
Excess may be deducted as itemized deduction.

2027 – same 350

49

2026 Schedule A



50

500 Adoption Credit

Maximum amount 17,670
Phase in range increased
Refundable portion up to 5,120

2027 – 18,250

51

501

Child tax credit - same 2,200
2027 – 2,300

Child and Dependent Care
Increases to AGI limits

52

503

Earned Income Tax Credit

Increased slightly – indexed to inflation
18,290 for 3 kids or more!

2027 – max 18,880

53

503 - 504 - Education tax benefits

American Opportunity - same
Lifetime Learning - same
Not Indexed
2027 - same

Student interest – same deduction, but phaseout increased

54

505 – 506 Estate and Gift

Basic exclusion – 15,000,000
2027 – 15,480,000

Annual gift exclusion - same 19,000
2027 – 20,000

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507 – 510 – Healthcare

HSA – slight increases
Long-term Care Premiums – slight increases
Medicare deductibles – slight increases
Medicare Part B premiums - standard - 202.90
Increased based on AGI (based on 2024 MAGI)
2027 – Part B premiums - not officially announced
Expected to be 209.50

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512

Senior Deduction – same 6,000 with phase out

Standard Deduction:	2027
MFJ 32,200	33,200
Single 16,100	16,600
SALT 40,400	40,804 (up 1% per year)

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513

No Tax on Tips same Max 25,000

No Tax on Overtime same Max 25,000

Car loan Interest same Max 10,000

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514

Applicable Federal Rates - by month

59

519 – 521 Retirement Plans

IRA Limits 7,500 (up from 7,000)
Over 50 – 8,600

2027 – expected to stay at 7,500

Pg 520 - See chart of all Retirement Plan Contribution limits. Most up slightly

60

522 – 523

Qualified Charitable Distributions 111,000
One time 55,000

2027 – 114,000
One time – 57,000

Social Security and Medicare
Maximum Earnings 184,500
2027 – 192,300

61

524 - Other

IRS Hotline and Toll-Free numbers

X

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A few other increases:

IRC 179 limit - 2,640,000
QBI threshold Joint 416,600 - 566,600
QBI minimum deduction 415.00
Small taxpayer exception – Gross Receipts 33,000,000
Excess Business Loss Limit – 528,000

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