

Key Tax Considerations for M&A in 2025

The recently signed One Big Beautiful Bill Act (“OBBA”) includes new tax laws that will impact a seller’s pre-acquisition tax positions. Whether the OBBA’s changes to the state and local tax deduction or research and development tax expense deductions, or the already existing complexities around sales tax and Public Law 86-272 issues, M&A dealmaking involves considerations beyond the transaction itself. Below is an overview of new rule changes and common existing issues to stay on top of when contemplating a transaction.

Topic	Considerations for Greater Efficiencies
State and Local Tax Changes for 2025	Currently, the individual tax deduction for state and local income and property taxes is limited to a combined total deduction of \$10,000, otherwise known as the “SALT cap.” Many states permit Partnerships and S-Corporations to file Pass-Through Entity Tax returns on behalf of their partners and shareholders. Filing Pass-through Entity Tax returns effectively permit partners and shareholders to circumvent the \$10,000 SALT cap by taking the income tax deduction at the entity level and pass it through as a deduction on the K-1. State Pass-Through Entity tax rules are nuanced and can be complicated for businesses that operate across states. ✓ The OBBA increases the SALT cap to \$40,000, effective for tax years starting on or after January 1, 2025. The \$40,000 SALT cap will be phased out by 30% for each dollar of modified adjusted gross income above \$500,000. The phase out will not reduce the SALT cap below \$10,000. ✓ The SALT cap will increase by 1% each year through 2029, reverting back to \$10,000 starting in 2030. Accordingly, the SALT cap will be \$40,400 in 2026, with additional 1% increases for 2027, 2028, and 2029, and reduced to \$10,000 in 2030. Public Law 86-272 limits the power of states to impose a net income tax if a taxpayer is selling tangible personal property and the taxpayer’s activities within a state are limited to soliciting orders, and the orders are shipped and approved from outside the state. Considering the prevalence of e-commerce, states such as California, Massachusetts, New York, New Jersey, and interpretations advanced by the Multistate Tax Commission more narrowly interpret Public Law 86-272 by limiting its protections for businesses that place “cookies” on customer devices in the state or provide post-purchase assistance via email or chatbot. Although subject to ongoing litigation, such interpretations limit Public Law 86-272 protections that would require many companies to reconsider their current Public Law 86-272 protections.
Federal Tax Updates	The research and development (R&D) expensing tax deduction previously allowed companies to deduct the cost of qualified research expenses from their profits before calculating owed federal taxes. Beginning in 2022, firms that invest in research and development expenditures were no longer allowed to deduct such expenses but rather had to slowly spread out the costs over a five- or fifteen-year period for domestic or foreign R&D, respectively. ✓ The OBBA reinstates the original immediate deduction for tax years starting on or after January 1, 2025.

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Cloud Computing Sales Tax Claims	As an increasing number of states require sales tax to be collected on cloud computing services, coupled with significant changes resulting from the 2019 <i>Wayfair</i> Supreme Court decision, SRS Acquiom has seen a significant uptick in sales tax-related tax claims. The various service models—software as a service (SaaS), platform as a service (PaaS), and infrastructure as a service (IaaS)—may be subject to sales tax and it is therefore imperative to understand both the specific type of cloud computing service provided and how a particular state may tax such cloud computing service. Sellers may be caught off-guard by “nexus” and corresponding tax liability, thinking that they do not have sufficient presence within a state (physical or economic) for tax remittances to apply. Each state separately determines what constitutes “nexus,” or a taxable presence, and sellers must determine their taxability within each state and pay tax appropriately. Not paying the required sales tax may present a tax liability for the seller. ✓ Among the most impacted industries subject to unforeseen sales tax liabilities are technology and pharmaceutical life sciences. ✓ Catching potential tax liabilities early in the due diligence process can help avoid hiccups and fees down the road. ✓ Ensuring there is sufficient escrow and expense fund coverage may offset any tax liabilities not identified early in the process.
The ABCs of VDAs: Simplifying Compliance	Voluntary disclosure agreements (VDAs) may be helpful to a selling business as it can reduce the number of historical periods open to tax, and penalties are often abated, resulting in a reduction of pre-closing tax liabilities indemnified by the sellers. ✓ Determining whether sales tax liabilities exist and filing the corresponding VDAs early on in a company’s lifecycle may also help deal parties avoid often exorbitant post-acquisition professional fees and additional periods of improper tax remittance. Preparedness now can help you determine the right business course down the road and avoid missteps.

SRS Acquiom can assist with streamlining companies’ voluntary compliance with tax obligations.

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