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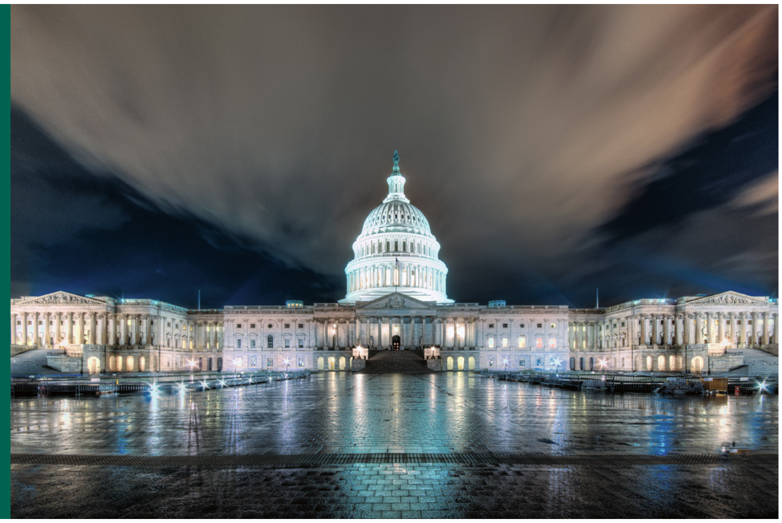

BUSINESS VALUATION IMPLICATIONS OF THE ONE BIG BEAUTIFUL BILL ACT

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This past July, after hotly contested debates in the House of Representatives and Senate, "An Act to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14" was signed into law by President Trump. This legislation, also known as the One Big Beautiful Bill Act ("OBBBA" or the "Act"), marks one of the largest tax reforms in recent history and is widely viewed as a cornerstone of the president's second-term agenda. Perceived pros and cons of the OBBBA aside, the new legislation contains many aspects that valuation professionals will have to consider when performing appraisals.

Introduction

The OBBBA contains hundreds of provisions, many of which affect tax law for individuals and businesses alike. For businesses, there are provisions with implications for both U.S. and international tax treatment. In addition, certain industries will be affected by new provisions under the OBBBA more than others.

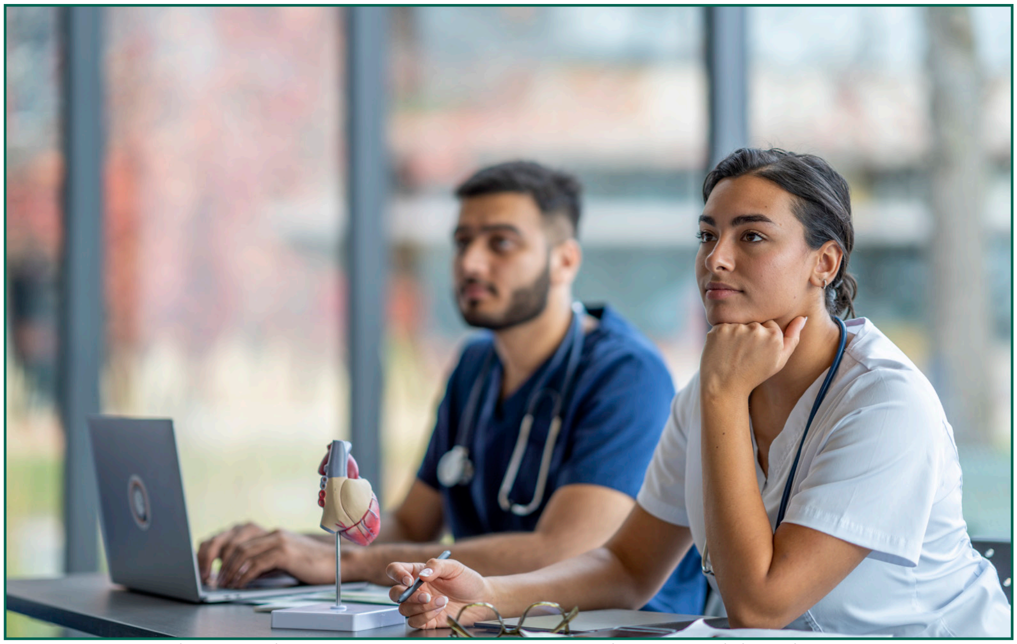
Some of the key tax takeaways from the OBBBA with respect to individuals, including trusts and estates, are as follows:

- Individual income tax rates established under the 2017 Tax Cuts and Jobs Act ("TCJA") that were set to expire at the end of 2025 have been made permanent.
- The cap on the itemized deduction for state and local taxes has been increased to $40,000 for 2025 and increases 1 percent thereafter through 2029.
- A deduction for tips and overtime pay from taxable income will come with income phaseouts that start at $150,000 for a single filer or $300,000 for a joint filer.
- The estate and lifetime gift tax exemption amount increase, to $15 million for single filers and $30 million for joint filers for gifts made after December 31, 2025, was extended and will be adjusted for inflation going forward.

Some of the other key tax takeaways, both U.S. and international, from the OBBBA are as follows:

- The corporate tax rate of 21 percent established under the TCJA remains unchanged.

- The immediate expensing of 100 percent of the cost of qualified assets placed in service after January 19, 2025, is allowed.
- The immediate expensing of 100 percent of the cost of qualified domestic real property with construction beginning after January 19, 2025, and placed in service before January 1, 2031, is allowed.


The health care industry is expected to be affected heavily by provisions in the OBBBA.

- The immediate expensing of certain domestic research and development ("R&D") expenses and the acceleration of the deduction of remaining unamortized domestic research expenses incurred after December 31, 2021, and before January 1, 2025, is allowed.
- The business interest deduction computation now includes an add back for depreciation and amortization expense.
- No provisions were made to change taxation rules on carried interest or capital gains.
- The deduction for qualified business asset investments was eliminated from certain taxable income calculations.
- A base erosion and anti-abuse tax rate of 10.5 percent was made permanent.

The OBBBA contains specific provisions that will impact certain industries more than others. In addition to the tax provisions discussed above that will affect businesses, particularly capital-intensive and research-driven companies, some other general key industry takeaways from the OBBBA are as follows:

- Many clean energy credit provisions and subsidies enacted as part of the 2022 Inflation Reduction Act ("IRA") will be eliminated or will "sunset."
- Fossil fuel permits will increase.
- Significant changes to Medicaid and Medicare, including funding cuts and increased eligibility requirements, will take place.
- Many elements of the Affordable Care Act of 2010 will be discontinued.
- States are free to continue to regulate artificial intelligence.

Business Valuation Implications

As discussed above, several provisions in the OBBBA will affect individuals, including trusts and estates. The focus of this discussion, however, is on the broader valuation implications of the OBBBA for businesses.

In general, a business valuation is conducted under the premise of value in continued use, viewing the subject company as a going-concern business. It is best practice to incorporate current tax, legal, and other regulatory policies in the valuation without regard for potential changes in policy that may occur in the future. As a result, many of the provisions of the recently enacted OBBBA discussed above will require valuation professionals to revisit key assumptions that are applied in business valuations for the remainder of 2025 and beyond, at least until that point in the future in which these provisions are again revised.

Income Approach

Valuation professionals use the income approach to estimate the value of a business based on the future economic benefits that the business is expected to generate. The discounted cash flow ("DCF") method is a widely used variation of the income approach that estimates the value of a company by projecting the company's expected future cash flow and estimating the present value of the cash flow using a risk-adjusted present value discount rate.

With the enactment of the OBBBA, the most significant changes valuation professionals will have to incorporate in their DCF analyses pertain to the Act's tax provisions. Moreover, valuations for businesses in certain industries will be affected more than others. For companies in capital-intensive industries, the immediate expensing of qualified assets and construction related to qualified real property will increase free cash flow assumptions used in a valuation professional's DCF model for these businesses.

In addition, valuations for these companies also will benefit from the add back of depreciation and amortization to adjusted taxable income ("ATI"). The use of earnings before interest, taxes, depreciation, and amortization instead of earnings before interest and taxes as a proxy for ATI will provide for a larger taxable basis from which to calculate business interest expense deductions. For capital-intensive companies that finance substantial amounts of machinery and equipment, this provision will increase their free cash flow, giving them more flexibility in strategic planning decisions.

For technology companies and other companies that depend heavily on R&D, the immediate expensing of certain R&D under the OBBBA will provide similar tax benefits and enhance free cash flow assumptions for these businesses.

From a strategic perspective, long-term capital investment and R&D expenses baked into an appraiser's DCF model will have to be reassessed as management teams of companies in these industries revisit their business plan to take advantage of the tax provisions in the OBBBA. As a result, valuation professionals also will have to contemplate adjusting the long-term growth expectations that accompany this potential increased capital investment and R&D spend.

Valuations of companies in the energy sector will be significantly affected by the provisions of the OBBBA. The increase in fossil fuel permits allowed under the Act likely will boost revenue projections for traditional energy companies. Conversely, the elimination of many of the clean energy tax credits and subsidies enacted under the IRA will contract revenue projections for clean energy companies.

WITH THE ENACTMENT OF THE OBBBA, THE MOST SIGNIFICANT CHANGES VALUATION PROFESSIONALS WILL HAVE TO INCORPORATE IN THEIR DCF ANALYSES PERTAIN TO THE ACT'S TAX PROVISIONS.

For health care providers, as well as companies that regularly interact with health care providers, changes to Medicaid and Medicare, along with certain patient eligibility requirements under the OBBBA, will affect valuations for these businesses. Federal funding cuts to these programs, along with increased administrative burdens in applying for coverage, likely will lower patient volumes and revenue forecasts that valuation professionals take into consideration when valuing health care providers. Meanwhile, companies that service health care providers also will take a corresponding hit to revenue as these providers look to manage costs in response to lower patient volumes.

While the bulk of this discussion has revolved around implications for companies' cash flow projections because of the OBBBA, it also will be important for valuation professionals to rethink certain inputs in the development of discount rates. Industry capital structures may change due to implications from the Act. Moreover, valuation professionals may have to reconsider company-specific premiums for risk not captured in beta or other discount rate inputs.

Market Approach

Valuation professionals use the market approach to estimate the value of a business by analyzing the market prices of comparable businesses. There are two common methods in the market approach: (1) the guideline publicly traded company ("GPTC") method, which is based on a comparison of the subject company to similar "guideline" publicly traded companies; and (2) the guideline merged and acquired company ("GMAC") method, which is based on the analysis of similar companies that have been recently acquired in a merger or acquisition transaction.

Under both the GPTC and GMAC methods, market-derived pricing multiples are selected based on a comparison of the subject company's financial fundamentals with those of selected guideline companies. In applying the market approach, valuation professionals will have to reconsider multiple selections as part of their valuation analyses in light of revised revenue growth and profitability, as discussed above, for many companies affected by the OBBBA.

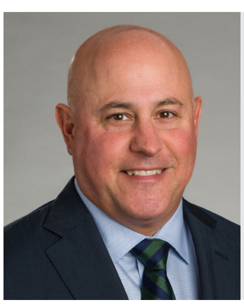
Summary

On July 4, 2025, the OBBBA was enacted into law. The Act carries with it numerous tax and other provisions, many of which will affect business valuations, particularly for companies in certain industries, such as manufacturing, technology, energy, and health care. Moving forward for the rest of 2025 and into the foreseeable future, it will be important for valuation professionals to carefully assess the effect of these provisions on a company's cash flow assumptions and financial projections in general.

VALUATION PROFESSIONALS MAY HAVE TO RECONSIDER COMPANY-SPECIFIC PREMIUMS FOR RISK NOT CAPTURED IN BETA OR OTHER DISCOUNT RATE INPUTS.

From a valuation standpoint, these provisions could have significant implications for DCF models and market-based multiples analyses. Previously acceptable benchmarks and "rules of thumb" in these industries may no longer be relevant or, at the least, may require adjustment because of the OBBBA. Although new risks have arisen specifically for companies with exposure to these industries, it will be necessary for valuation professionals valuing companies of all types to perform additional due diligence around implications of the OBBBA.

About the Author



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