

26-2 September 9, 2026

## **FINANCE MEMORANDUM**

### **2025 Supplemental Business Tax Form Instructions Effectuating New York City's Decoupling from the OBBBA Amendments to IRC § 168(n), IRC § 179, IRC § 174A, and IRC § 163(j)**

On May 28, 2026, New York enacted legislation (Part G of Chapter 59 of the Laws of 2026) to decouple New York City's Unincorporated Business Tax (UBT), General Corporation Tax (GCT), Banking Corporation Tax (BTX), and Business Corporation Tax (BCT) (collectively "the Business Taxes") from four Internal Revenue Code (IRC) provisions enacted by the One Big Beautiful Bill Act (OBBBA)<sup>1</sup> :

- Depreciation deductions pursuant to IRC § 168(n);
- Increased limitation for deductions pursuant to IRC § 179(a);
- Deductions of domestic research or experimental expenditures pursuant to IRC § 174A;
- Addback of depreciation, amortization and depletion deductions to adjusted taxable income used to calculate the interest expense limitation pursuant to IRC § 163(j).

The decoupling modifications to the Business Taxes apply to taxable years beginning after December 31, 2024, therefore, taxpayers who have already filed a return for such period must file an amended return to report these changes. This Finance Memorandum describes each decoupling provision and provides instructions for reporting the new modifications to the Business Taxes on tax returns covering calendar year 2025, and fiscal years beginning in 2025.

#### **Interest and Penalty Abatement**

No interest or penalty accrues on returns for the Business Taxes under a valid extension that are filed within the period of extension or amended returns filed for taxable years beginning after December 31, 2024, and before January 1, 2026, that solely report modifications required by Part G of Chapter 59 of the Laws of 2026 ("Part G modifications").<sup>2</sup> Taxpayers filing an amended return that is not solely reporting Part G modifications might not be subject to the portion of interest and penalty attributable to additional tax liability generated by Part G modifications, as provided below.

When filing an original return under a valid extension or an amended return that reports Part G modifications and results in additional tax liability, interest, or penalties in part due to increase in taxable income or another applicable tax base as a result of Part G modification, taxpayer must enter a special

1. Public Law 119-21.

2. Laws of 2026, Chapter 59, Part G, § 11.

condition code “OB” in the space indicated near the top of the applicable form. Every such taxpayer must submit a worksheet that isolates the amount of tax liability from Part G modifications shown on the return. Each of the Business Taxes has a separate worksheet for this purpose.<sup>3</sup> All taxpayers may access the worksheets through their eServices account at [www.nyc.gov/eservices](http://www.nyc.gov/eservices). Taxpayers filing a paper return and unable to access the worksheet on eServices may access the worksheet on the Department of Finance’s website at [www.nyc.gov/finance](http://www.nyc.gov/finance) and, attached to a copy of the tax return to which the worksheet relates, mail it as follows:

**All returns Except Refund Returns:**

NYC Department of Finance  
P.O. Box 5564  
Binghamton, NY 13902-5564

**Returns Claiming Refunds:**

NYC Department of Finance  
P.O. Box 5563  
Binghamton, NY 13902-5563

Taxpayers filing an amended return that solely reports Part G modifications, must enter a special condition code “AB” in the space indicated near the top of the applicable form. A worksheet is not required for such returns.

Taxpayers subject to the UBT, GCT, or BTX that made an estimated payment for taxable year 2026 will not be subject to the addition to the tax pursuant to §§ 11-676(3) or 11-525(c) of the Administrative Code of the City of New York (Admin. Code), by reason of the increase in tax liability for taxable year 2025 solely due to Part G modifications.

Estimated tax payments for any Business Taxes made after May 28, 2026, must accurately take into account Part G modifications.

**Reporting Instructions for Taxpayers Filing Form NYC-2S, NYC-4S, NYC-4SEZ, NYC-202S or NYC-204EZ**

Taxpayers who must report Part G modifications for tax years beginning after December 31, 2024, as described in this Finance Memorandum, may not file form NYC-2S, NYC-4S, NYC-4SEZ, NYC-202S or NYC-204EZ. Taxpayers who have already filed using one of these forms will be required to file an amended return using the appropriate form as outlined below.

**IRC Section 168(n)**

Generally, IRC § 167 allows deductions for depreciation of property used in a trade or business or held for the production of income for federal income tax purposes. The amount of the depreciation deduction is determined under IRC § 168, which provides for applicable depreciation methods, recovery periods and convention for tangible property.

Section 70307 of the OBBBA added subsection IRC § 168(n), which allows for a depreciation deduction equal to 100% of the adjusted basis of qualified production property for the year it is placed in service. Qualified production property is any portion of certain nonresidential real property that is used as an integral part of manufacturing, production, or refining, construction on which begins after January 19, 2025 and before January 1, 2029, and which is placed in service after July 4, 2025 and before January 1, 2031, and which is subject to IRC § 168.<sup>4</sup>

3. At the time of the publication of this Finance Memorandum, the worksheets may still be under development and will have to be submitted after the tax return has been filed. Worksheets submitted by mail must still be attached to a copy of the tax return to which they relate.

4. IRC § 168(n)(2)(A).

For New York City purposes, for taxable years beginning after December 31, 2024, taxpayers must add back to their federal gross income the amount allowed as an exclusion or deduction of any depreciation of qualified production property pursuant to IRC § 168(n) when calculating taxable income for the Business Taxes.<sup>5</sup>

For the purposes of the Business Taxes, qualified production property shall not be treated as § 1245 property as described in IRC § 1245.<sup>6</sup> However, such property may be treated as 1245 property if it meets the qualifications described in a subsection of IRC § 1245 other than IRC § 1245(a)(3)(G).

Taxpayers are allowed to deduct the depreciation of such qualified production property pursuant to IRC § 167(a) so that the depreciation deduction and adjusted basis reduction or any deduction or exclusion allowed by IRC § 168(n) does not apply.<sup>7</sup>

## Reporting Instructions

For the purposes of the Business Taxes, taxpayers should recalculate their depreciation deductions as if IRC § 168(n) did not apply by including qualified production property on form NYC-399Z, Schedule A1.

To the extent the depreciation under 168(n) was taken into account on the taxpayer's federal balance sheet, such balance sheet value must be adjusted to match the addback of the deduction when reporting the value of assets on a New York City return, for the purposes of maintaining accurate book value of relevant assets.

## IRC Section 179

IRC § 179 allows the cost of certain property to be deducted, rather than capitalized, in the taxable year such property is placed in service, up to a specified limit. Generally, IRC § 179 applies to tangible personal property or certain computer software that is section 1245 property and that is purchased for use in the active conduct of a trade or business (IRC § 179 property).<sup>8</sup> Deductions that exceed taxable income for the taxable year can be carried forward.<sup>9</sup>

Section 70306 of the OBBBA amended IRC § 179 by increasing the maximum amount that can be expensed under IRC § 179(b)(1) from \$1,000,000 to \$2,500,000 and the phaseout threshold amount under IRC § 179(b)(2) from \$2,500,000 to \$4,000,000. Under IRC § 179(b)(2), the \$2,500,000 limitation amount is reduced by the amount by which the cost of IRC § 179 property placed in service during the taxable year exceeds \$4,000,000, but not below \$0. These amounts are adjusted for inflation for taxable years beginning after December 31, 2025.<sup>10</sup> The OBBBA amendments to IRC § 179 apply to property placed in service in taxable years beginning after December 31, 2024.

For New York City purposes, for taxable years beginning after December 31, 2024, taxpayers may deduct the cost of IRC § 179 property by applying the limitation under IRC § 179(b)(1) and § 179(b)(2) that was in effect for the last taxable year beginning before January 1, 2025, adjusted for inflation in accordance with IRC § 179(b)(6) generally using the cost of living inflation adjustment base year in effect prior to the OBBBA's passage.<sup>11</sup> For 2025 the aggregate cost of IRC § 179 property that a taxpayer can expense for the purposes of the Business Taxes cannot exceed \$1,250,000 and the phaseout threshold pursuant to IRC § 179(b)(2) is \$3,130,000.

5. See Admin. Code §§ 11-506(b)(19) for the UBT, 11-602(8)(b)(23) for the GCT, 11-641(b)(18) for the BTX, and 11-652(8)(b)(24) for the BCT.

6. Id.

7. See Admin. Code §§ 11-506(c)(14) for the UBT, 11-602(8)(a)(18) for the GCT, 11-641(e)(17) for the BTX, and 11-652(8)(a)(19) for the BCT.

8. See IRC § 179(d)(1).

9. IRC § 179(b)(3)(B).

10. See IRC § 179(b)(6).

11. See Admin. Code §§ 11-506(b)(20) and 11-506(c)(15) for the UBT, 11-602(8)(a)(19) and 11-602(8)(b)(24) for the GCT, 11-641(b)(19) and 11-641(e)(18) for the BTX, and 11-652(8)(a)(20) and 11-652(b)(25) for the BCT.

### **Reporting Instructions for UBT Filers**

Taxpayers must include the amount of any federal deduction taken under IRC § 179 in determining federal gross income on form NYC-202, Schedule B, line 11, or form NYC-204, Schedule B, line 15.

Taxpayers must include the amount allowed as a deduction pursuant to Admin. Code § 11-506(c)(15) on form NYC-202, Schedule B, line 19, or form NYC-204, Schedule B, line 23.

Taxpayers must submit a pro forma federal form 4562 Part 1, filled out in accordance with the City limitations described above.

### **Reporting Instructions for GCT Filers**

Taxpayers must include the amount of any federal deduction taken under IRC § 179 in determining federal gross income on form NYC-3L, Schedule B, line 7(c), or form NYC-3A, Schedule B, Line 7(c), Column A.

Taxpayers must include the amount allowed as a deduction pursuant to Admin. Code § 11-602(8)(a)(19) on form NYC-3L, Schedule B, line 16b, or form NYC-3A, Schedule B, line 16b, Column A.

To the extent the deduction pursuant to IRC § 179 was taken into account on the taxpayer's federal balance sheet, such balance sheet value must be adjusted to reflect only the allowed portion of the deduction when reporting the value of assets on forms NYC-3L and NYC-3A, Schedule E, line 1.

Taxpayers must submit a pro forma federal form 4562 Part 1, filled out in accordance with the City limitations described above. In the case of a combined group, such form must include a breakdown of the reported amount for each member of the group.

### **Reporting Instructions for BTX Filers**

Taxpayers must include the amount of any federal deduction taken under IRC § 179 in determining federal gross income on form NYC-1, Schedule B, line 12.

Taxpayers must include the amount allowed as a deduction pursuant to Admin. Code § 11-641(e)(18) on form NYC-1, Schedule B, line 28.

To the extent the deduction pursuant to IRC § 179 must be taken into account in calculation of the average value of total assets, such value must be adjusted to reflect only the allowed portion of the deduction when reporting the average value of total assets on form NYC-1, Schedule D, line 1, and NYC-1A, Schedule M, line 44. Taxpayers must submit a pro forma federal form 4562 Part 1, filled out in accordance with the City limitations described above.

### **Reporting Instructions for BCT Filers**

Taxpayers must include the amount of any federal deduction taken under IRC § 179 in determining federal gross income on form NYC-2, Schedule B, Line 14, or form NYC-2A Schedule B, line 14, Designated Agent Column.

Taxpayers must include the amount allowed as a deduction pursuant to Admin. Code § 11-652(8)(a)(20) on form NYC-2, Schedule B, Line 20, or form NYC-2A, line 20, Designated Agent Column.

To the extent the deduction pursuant to IRC § 179 was taken into account on the taxpayer's federal balance sheet, such balance sheet value must be adjusted to reflect only the allowed portion of the deduction when reporting the value of assets on forms NYC-2 and NYC-2A, Schedule C, line 1.

Taxpayers must submit a pro forma federal form 4562 Part 1, filled out in accordance with the City limitations described above. In the case of a combined group, such form must include a breakdown of the reported amount for each member of the group.

## IRC Section 174A

Prior to the OBBBA, IRC § 174 required specified research and experimental expenditures to be capitalized and amortized ratably over a 5-year period beginning with the midpoint of the taxable year in which such expenditures were paid or accrued. The ratable period for any specified research or experimental expenditure that was attributable to foreign research was 15 years.

Section 70302 of the OBBBA enacted IRC § 174A, which provides an election to deduct the full amount of domestic research or experimental expenditures in the year such expenditures are paid or accrued. Treatment of foreign research or experimental expenditures remained unchanged and governed by IRC § 174.

For New York City purposes, for taxable years beginning after December 31, 2024, taxpayers must disregard the election made under IRC § 174A and, instead, must amortize domestic research and experimental expenditures in the same manner as foreign research or experimental expenditures under IRC § 174, except that the applicable period for such amortization is 5 years beginning with the midpoint of the taxable year in which such expenditures are paid or incurred.<sup>12</sup>

The Business Taxes are not decoupled from the transition rules pursuant to section 70302(f) of the OBBBA. Taxpayers who, prior to the OBBBA, had established capital accounts for non-foreign research or experimental expenditures that were being amortized ratably over a 5-year period under IRC 174, may, for federal income tax purposes, either immediately deduct the relevant remaining unamortized capital account or elect to do so over a 2-year amortization period, as provided under the OBBBA. The amounts so deducted for federal income tax purposes do not have to be added back pursuant to the modifications described above.

### Reporting Instructions for UBT filers

Taxpayers must include the amount of the domestic research or experimental expenditure disallowed pursuant to Admin Code § 11-506(b)(21) on form NYC-202, Schedule B, line 11, form NYC-202EIN, Schedule B, line 11, or form NYC-204, Schedule B, line 15.

Taxpayers must deduct the amount of the domestic research or experimental expenditure allowed pursuant to Admin Code § 11-506(c)(16) on form NYC-202, Schedule B, line 19, form NYC-202EIN, Schedule B, line 19, or form NYC-204, Schedule B, line 23.

Taxpayers must submit a pro forma federal form 4562 Part VI, showing a recomputed amount of amortization deductions.

### Reporting Instructions for GCT filers

Taxpayers must include the amount of the domestic research or experimental expenditure disallowed pursuant to Admin Code § 11-602(8)(b)(25) on form NYC-3L, Schedule B, line 7c or form NYC-3A, Schedule B, line 7c, Column A for the reporting corporation and NYC-3A/B, Schedule B, line 7c for every subsidiary included in the combined return. Taxpayers must deduct the amount of the domestic research or experimental expenditure allowed pursuant to Admin. Code § 11-602(8)(a)(20) on form NYC-3L, Schedule B, line 16b or form NYC-3A, Schedule B, line 16b Column A for the reporting corporation and NYC-3A/B, Schedule B, line 16b for every subsidiary included in the combined return.

To the extent the deduction pursuant to IRC § 174A was taken into account on the taxpayer's federal balance sheet, such balance sheet value must be adjusted to reflect only the portion of the deduction allowed pursuant to Admin. Code § 11-602(8)(a)(20) when reporting the value of assets on forms NYC-3L and NYC-3A, Schedule E, line 1.

12. See Admin. Code §§ 11-506(b)(21) and 11-506(c)(16) for the UBT, 11-602(8)(a)(20) and 11-602(8)(b)(25) for the GCT, 11-641(b)(20) and 11-641(e)(19) for the BTX, and 11-652(8)(a)(21) and 11-652(8)(b)(26) for the BCT.

Taxpayers must submit a pro forma federal form 4562 Part VI, showing a recomputed amount of amortization deductions.

### **Reporting Instructions for BTX filers**

Taxpayers must include the amount of the domestic research or experimental expenditure disallowed pursuant to Admin Code § 11-641(b)(20) on form NYC-1, Schedule B, line 12.

Taxpayers must deduct the amount of the domestic research or experimental expenditure allowed pursuant to Admin Code § 11-641(e)(19) on form NYC-1, Schedule B, line 28.

To the extent the deduction pursuant to IRC § 174A must be taken into account in calculation of the average value of total assets, such value must be adjusted to reflect only the portion of the deduction allowed pursuant to Admin Code § 11-641(e)(19) when reporting the average value of total assets on form NYC-1, Schedule D, line 1, and NYC-1A, Schedule M, line 44.

Taxpayers must submit a pro forma federal form 4562 Part VI, showing a recomputed amount of amortization deductions.

### **Reporting Instructions for BCT filers**

Taxpayers must include the amount of the domestic research or experimental expenditure disallowed pursuant to Admin Code § 11-652(8)(b)(26) on form NYC-2, Schedule B, line 14 or form NYC-2A Schedule B, line 14 and form NYC-2A/BC, Schedule B, line 14 for every corporation included in the combined return other than the Designated Agent.

Taxpayers must deduct the amount of the research or experimental expenditure allowed pursuant to Admin. Code § 11-652(8)(a)(21) on form NYC-2, Schedule B, line 20 or form NYC-2A, Schedule B, line 20 and form NYC-2A/BC, Schedule B, line 20 for every corporation included in the combined return other than the Designated Agent.

To the extent the deduction pursuant to IRC § 174A was taken into account on the taxpayer's federal balance sheet, such balance sheet value must be adjusted to reflect only the portion of the deduction allowed pursuant to Admin. Code § 11-652(8)(a)(21) when reporting the value of assets on forms NYC-2 and NYC-2A, Schedule C, line 1.

Taxpayers must submit a pro forma federal form 4562 Part VI, showing a recomputed amount of amortization deductions.

### **IRC Section 163(j)**

For federal income tax purposes IRC § 163(j)(1) limits the amount of business interest deductions that can be taken to the sum of business interest income, 30% of adjusted taxable income, and floor plan financing interest. The excess of interest expense for the year over the IRC § 163(j) limitation may be carried forward.<sup>13</sup> IRC § 163(j)(8)(A)(v) allowed the calculation of adjusted taxable income to be made without regard to any deduction allowable for depreciation, amortization, or depletion. Prior to the enactment of the OBBBA, this provision was applicable only for taxable years beginning before January 1, 2022.

Section 70303 of the OBBBA restored IRC § 163(j)(8)(A)(v) and made it permanent.

New York City, generally, conforms with the IRC § 163(j) limitation. See Finance Memorandum 18-11, Revised January 27, 2021 (FM 18-11) for more information on the treatment of interest subject to the IRC § 163(j) limitation under the Business Taxes. For taxable years beginning after December 31, 2024, taxpayers must add back the increase in the amount allowed as a federal interest deduction attributable to additional adjusted taxable income

13. IRC § 163(j)(2).

that is attributable to depreciation, amortization or depletion.<sup>14</sup> The term “additional adjusted taxable income that is attributable to depreciation, amortization or depletion” is defined to mean the difference between:

- (i) Amount calculated under IRC § 163(j)(8) and
- (ii) Such amount calculated without regard to IRC § 163(j)(8)(A)(v).<sup>15</sup>

All taxpayers reporting business interest expense,<sup>16</sup> as defined in IRC § 163(j)(5), that are not exempt from IRC § 163(j) limitation pursuant to IRC § 163(j)(3), must follow the applicable steps provided for in FM 18-11 to report and attribute the interest expense deducted, except that the amount of interest expense limitation under IRC § 163(j) must be recalculated by excluding depreciation, amortization or depletion from adjusted taxable income. Every such taxpayer must attach a pro forma federal form 8990 and enter zero on line 11 of such form to calculate the City amount of business interest expense deduction for the current taxable year and the amount of excess interest to be carried forward, if any. Carryforwards of interest expense from tax years beginning prior to January 1, 2025, are not affected by this recalculation.

### **Reporting Instructions for UBT filers**

Taxpayers must include the amount of interest expenses disallowed pursuant to Admin Code § 11-506(b)(22) on form NYC-202, Schedule B, line 11, NYC-202EIN, Schedule B, line 11, or Form NYC-204, Schedule B, line 15. The recomputed amount of interest expense deduction shown on the pro forma federal form 8990 must be reattributed to business and investment capital in accordance with the steps on page 11 of FM 18-11.

### **Reporting Instructions for GCT filers**

When recomputing the IRC § 163(j) limitation as if the taxpayers were C corporations under the steps in FM 18-11, GCT taxpayers must also include the modification pursuant to Admin. Code 11-602(8)(b)(26), so that the pro forma federal form 8990 reflects the total amount interest expense that may be allowed for GCT purposes. Such recomputed amount of interest expense must be entered on line 17 of the form NYC-ATT-S-CORP and attributed to business, investment and subsidiary capital in accordance with FM 18-11.

### **Reporting Instructions for BTX filers**

When recomputing the IRC § 163(j) limitation as if the taxpayers were C corporations under the steps in FM 18-11, BTX taxpayers must also include the modification pursuant to Admin. Code 11-641(b)(21), so that the pro forma federal form 8990 reflects the total amount interest expense that may be allowed for GCT purposes. Such recomputed amount of interest expense must be entered on line 17 of the form NYC-ATT-S-CORP.

### **Reporting Instructions for BCT filers**

Taxpayers must include the amount of interest expenses disallowed pursuant to Admin Code § 11-652(8)(b)(27) on form NYC-2, Schedule B, line 14 or form NYC-2A, Schedule B, line 14, Designated Agent Column. The recomputed amount of interest expense deduction shown on the pro forma federal form 8990 must be reattributed in accordance with the steps on page 2 through 4 of FM 18-11.

If filing an amended return and the amount of interest expense attributable to gross investment income or capital, gross exempt unitary corporation dividends, gross exempt CFC income, and gross exempt insurance or utility corporation dividends changes as a result of the recalculation pursuant to Admin. Code § 11-652(8)(b)(27), taxpayers must amend the appropriate lines on form NYC-2.1 and attach it to the amended return.

14. See Admin. Code §§ 11-506(b)(21) and 11-506(c)(16) for the UBT, 11-602(8)(a)(20) and 11-602(8)(b)(25) for the GCT, 11-641(b)(20) and 11-641(e)(19) for the BTX, and 11-652(8)(a)(21) and 11-652(8)(b)(26) for the BCT.

15. Id.

16. S corporations subject to the GCT and BTX must determine the amount of business interest they would have reported for federal income tax purposes if they had not made the election pursuant to Subchapter S of Chapter One of the IRC.