BerryDunn STIFEL

EVOLVE 2025

Annual Banking Summit

Accounting Standards and Tax Updates

Proactive Strategies for Institutional Preparedness

BerryDunn

May 29, 2025

Presenters

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A Senior Manager in BerryDunn's Financial Services Practice Group, Kaylyn brings more than 15 years of audit and accounting experience to publicly and privately held bank clients.

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Agenda

1 Accounting and audit update

2 General tax update

Learning objectives

- Understand upcoming accounting and audit changes and how they will impact their financial institutions.
- Understanding of the tax implications of new accounting pronouncements and regulatory proposals.

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Section 1

Accounting and audit update

ASU – 2023-07

Segment Reporting (Subtopic 280)

- Improve reportable segment disclosure requirements
- Enhanced disclosures about significant segment expenses provided to the chief operating decision-maker
- This was effective for public business entities fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024
- ASU is applicable even if only have one segment that you report on at your organization

ASU – 2024-03, Income Statement – Reporting Comprehensive Income

Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses

- Requires disclosure of specified information about certain costs and expenses
- Public business entities must disclose the amounts of employee compensation, depreciation, and intangible asset amortization
- Disclosure of the total amount of selling expenses and, in annual reporting periods, an entity's definition of selling expenses
- Effective for public business entities within annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027

ASU No. 2024-ED200, Derivatives and Hedging

Topic 815 Hedge Accounting Improvements

This has been added to FASB's research agenda to study a potential overhaul of hedge accounting

Five Key Issues

1. Simplifying risk assessments
2. Hedging against interest rate changes
3. Expanding hedging options
4. Permitting new financial instruments to reduce risk
5. Clarifying foreign currency debt arrangements

Current proposed ASUs

Related to recognition and measurement

Financial Instruments – Credit Losses (Topic 326) - Purchased Financial Assets

- Addresses the complexity and comparability concerns
- Eliminates purchased financial assets with credit deterioration (PCD) vs. those financial assets without credit deterioration (non-PCD)

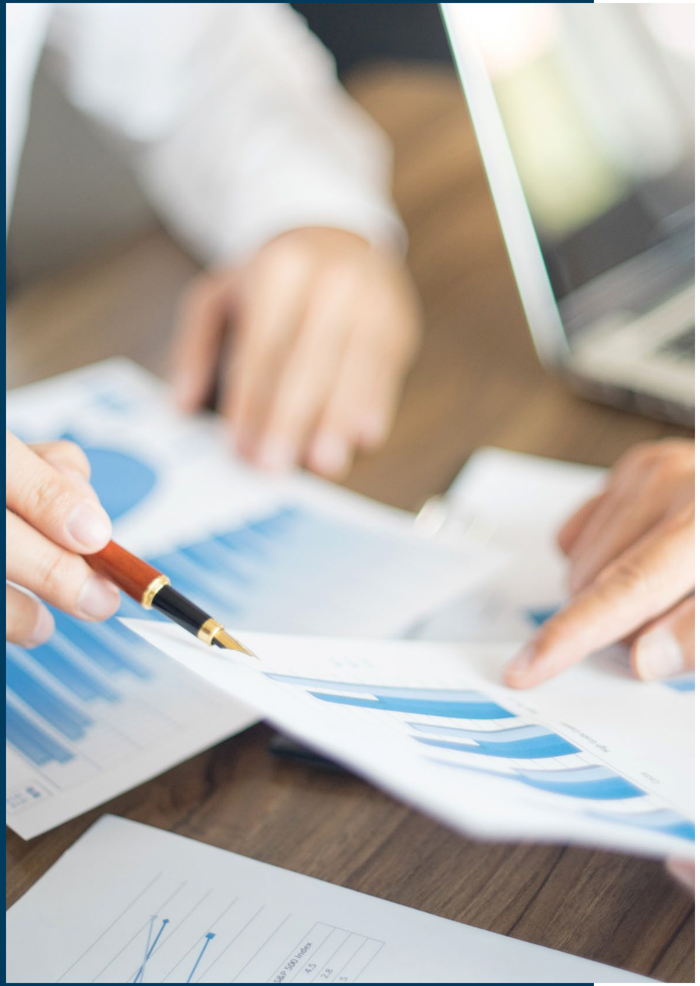
Accounting for Disclosure of Software Costs

- Intent is to modernize the accounting for software costs and enhance the transparency about an entity's software costs
- Proposed updates would remove "project stages" throughout Subtopic 350-40

Current proposed ASUs

Related to presentation and disclosure

- Statement of cash flows – targeted improvements
- Discussions on modifying the cash flow for financial institutions
- Changes to operations classification
  - Accepting deposits
  - Making loans
- Additional disclosure around cash interest received



Auditing standards

One final note

- PCAOB AS 2310 The Auditor’s Use of Confirmations
  - Amendments to the standard are intended to strengthen and modernize the requirements for confirmation process
  - Requirement of auditors to confirm cash
  - Applicable for public business entity audits for fiscal years on or after June 15, 2025
- AICPA has their own version in process
  - On their work plan
- Accounting for a change in tax rate
  - Remeasure deferred tax assets and liabilities

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Section 2

General tax update

ASU 2023-09

Improvements to income tax disclosures

Rate reconciliation (public entities only)

- Disclosure of specific categories in tabular rate reconciliation including breakout of any reconciling items greater than or equal to 5% of statutory rate

Income taxes paid

- Federal, state, and foreign income taxes paid (net of refunds) disclosed on a disaggregated basis
- Disclosure of income taxes paid to any jurisdiction encompassing 5% or greater of total income taxes paid

Effective dates

- Public entities: annual periods beginning after December 15, 2024
- Non-public entities: annual periods beginning after December 15, 2025
- Early adoption is permitted

Polling question #1

Overview of the budget reconciliation process

Partisan composition, U.S. House 119th Congress	
Party	**Members**
Democratic	213
Republican	220
Vacancies	2
Total	**435**

Partisan composition, U.S. Senate 119th Congress	
Party	**Members**
Democratic	45
Republican	53
Independent	2[1]
Vacancies	0
Total	**100**

- The Senate filibuster rule generally requires a 60-vote supermajority to pass new legislation
- Budget reconciliation bills bypass the filibuster rule in the Senate and therefore only require a simple majority to pass
- Budget reconciliation bills can only be introduced in limited number and the net forecasted spending under the bill must fall within certain budgetary constraints over a (typically) 10-year period
- Given that neither political party, in recent years, has been able to control the Senate by 60 or more votes, budget reconciliation is how sizeable tax bills are passed by both parties
  - Tax Cuts and Jobs Act (2017)
  - Inflation Reduction Act (2022)
- Under budget reconciliation, significant tax law changes are often enacted on a temporary basis (i.e., sunsetting TCJA provisions) to fall within the required 10-year budget window

TCJA provisions – Corporate taxpayers

Tax Provision	Pre-TCJA (2017 rules)	TCJA (Post-2017 rules)	Scheduled Expiration of TCJA
Corporate Tax Rate*	35%	21%	Corporate tax rate will remain at 21% unless new law is enacted.
Bonus Depreciation	50% bonus depreciation	100% bonus depreciation (phasing out after 2022) (40% for 2025)	Bonus depreciation will expire for property placed in service after December 31, 2026.
§163(j) Interest Expense Limitation**	EBITDA-based limitation	EBITDA-based limitation (2018) EBIT-based limitation (2022)	Interest expense will continue to be limited based on EBIT-based limitation.
§174 Amortization of Research and Experimental Expenditures**	Immediately deductible	Amortized over 5 years (2022)	R&E expenditures will continue to be amortized over a 5-year period unless repealed.
NOL Limitation**	Up to 100% of taxable income 2-year carryback 20-year carryforward	Up to 80% of taxable income (2021) No carryback allowed Indefinite carryforward	NOL will continue to be limited to 80% of taxable income and can be carried forward indefinitely.

* Permanent Tax Provision
** Permanent Delayed Onset Tax Provision

TCJA provisions – Individual taxpayers

Tax Provision	Pre-TCJA (2017 rules)	TCJA (Post-2017 rules)	Scheduled Expiration of TCJA
Individual Tax Rates	7 brackets, highest marginal rate 39.6%	7 brackets, highest marginal rate 37%	Marginal rates will revert to their permanent pre-TCJA levels for tax years beginning after 12/31/2025.
Standard Deduction	$6,350 single / $12,700 MFJ	$12,000 single / $24,000 MFJ $15,000 single / $30,000 MFJ (2025)	Standard deduction amounts will revert to their pre-TCJA levels and then be adjusted for inflation for tax years beginning after 12/31/2025.
Personal Exemptions	$4,050 per person	Eliminated	Personal exemptions will revert to their pre-TCJA levels and then be adjusted for inflation for tax years beginning after 12/31/2025.
Child Tax Credit	$1,000 per child, limited refundability	$2,000 per child, higher phaseout, refundable up to $1,600	The child tax credit will revert to its pre-TCJA structure for tax years beginning after 12/31/2025.

TCJA provisions – Individual taxpayers (continued)

Tax Provision	Pre-TCJA (2017 rules)	TCJA (Post-2017 rules)	Scheduled Expiration of TCJA
SALT Deduction Cap	No cap	$10,000 cap	The $10,000 cap on the SALT deduction will not apply for tax years beginning after 12/31/2025.
Mortgage Interest Deduction	Interest on up to $1M mortgage	Interest on up to $750K mortgage	The $750,000 limitation will increase to $1M of acquisition debt regardless of when debt was incurred for tax years beginning after 12/31/2025.
Misc. Itemized Deductions	Allowed above 2% AGI	Suspended through 2025	Miscellaneous expense deduction allowed to the extent that such expenses collectively exceed 2% of AGI for tax years beginning after 12/31/2025.
§199A Pass-through Business Deduction	No special deduction	20% deduction for qualified income	The 199A deduction will expire on 12/31/2025.

Legislative update

- House of Representatives passed tax bill May 22nd with a 215-214 vote
- Moves to the Senate for review where revisions are expected
- Upon Senate approval and reconciliation to House bill, goal of delivery of final bill to President by July 4th
- Tension present surrounding SALT limits, Medicaid, energy credits, overall cost of package

TCJA provisions – Corporate taxpayers

Tax Provision	TCJA (Post-2017 rules)	House of Representatives bill (5/22 approval)
Corporate Tax Rate	21%	21%
Bonus Depreciation	100% bonus depreciation (phasing out after 2022) (40% for 2025)	Restore 100% bonus depreciation through 2029
§163(j) Interest Expense Limitation**	Interest expense will continue to be limited based on EBIT-based limitation.	EBITDA-based limitation through 2029
§174 Amortization of Research and Experimental Expenditures**	Domestic research costs amortized over 5 years (2022) and foreign over 15 years.	Immediately deductible through 2029 for domestic based costs, foreign remains unchanged.
Energy Credits		Several repealed, restricted, or phased out at end of 2025. Drafted bill repeals ability to transfer credits for projects beginning two years after date of enactment (Inflation Reduction Act).

TCJA provisions – Individual taxpayers

Tax Provision	TCJA (Post-2017 rules)	House of Representatives bill (5/22 approval)
Individual Tax Rates	7 brackets, highest marginal rate 37% - will revert back to higher pre-TCJA rates 2026 absent change	Extends current TCJA rates through 2029 (no increase) and made permanent
Child Tax Credit	$2,000 per child, higher phaseout, refundable up to $1,600	Increased to $2,500 per child indexed for inflation through 2028
§199A Pass-through Business Deduction	20% deduction for qualified income – set to expire	QBI deduction to become permanent and increase from 20% to 23% for years beginning after 12/31/25
SALT Deduction Cap	$10,000 cap – will revert back to no cap in 2026 absent further changes	Creates a new permanent $40,000 cap for individual and joint filers. Restricts PTE state tax deduction.

Additional proposed tax updates

- Deduction for tip income and overtime pay
- Auto loan interest deduction
  - Items above deductible without regard to whether taxpayer itemizes
- No indication of changes to tax-exempt status of municipal income
- Increase highest tax rate for certain private foundations
- Creation of a 1% of taxable income "floor" on corporate charitable contributions

SALT Update – Changes Effective January 1, 2025

Connecticut

- NOL carryforward increased to from 20 to 30 years

Maine

- Dirigo Business Incentives Credit – Replaces Capital Investment Credit

Massachusetts

- Single-Sales-Factor Apportionment – Shifts from 3-factor to sales-only, benefiting in-state employers
- New Sourcing Rule for Financial Institutions – Investment/trading receipts sourced via a fraction-based method

New Hampshire

- Interest & Dividends Tax Repeal – Eliminates tax on interest and dividends, making NH a no-income-tax state

Rhode Island

- NOL carryforward increased to from 5 to 20 years
- Optional Receipts-Only Apportionment for Banks – Election generally remains in effect for all subsequent tax years

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