

Future-Ready Finance: AI Governance, Quantum Computing and Tax

Financial Executives International

June 9, 2026



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Agenda

- AI: Back to the Future
- Federal Tax Highlights: OBBA

AI: Back to the Future

Past, present, and future of AI



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Today's speakers



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Agenda

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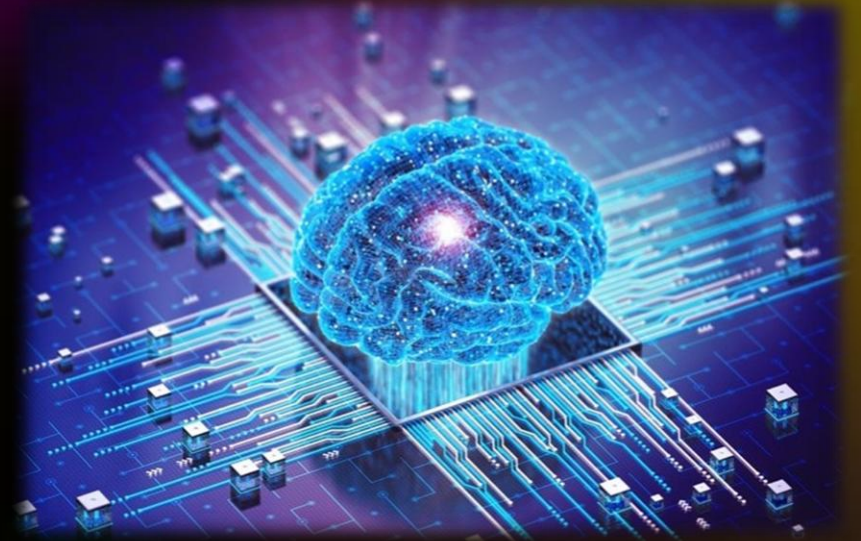
- Legacy financial systems before AI

2

- Present applications for AI

3

- Future of AI



Why this matters now



- **Legacy System Strengths**
 - Legacy financial systems excel in stability, reliability, compliance, and auditability within regulated environments.
- **Changing Executive Expectations**
 - Executives demand faster metrics, predictive insights, and reduced manual effort for strategic decision-making.
- **Structural Misalignment**
 - Legacy systems are structurally misaligned, lacking flexibility to support rapid innovation and agility in finance.
- **Balancing Control and Agility**
 - Finance organizations face tension between maintaining control and achieving the agility needed for future success.

Why the legacy model worked

- **Robust Control Framework**

- Legacy systems include strong IT and application controls ensuring regulatory compliance and audit confidence.

- **High Transaction Reliability**

- These systems reliably handled high transaction volumes with accurate processing across large enterprises.

- **Deterministic Processes**

- Predefined logic ensured predictable outcomes, minimizing reporting risks and simplifying reconciliations.

- **Alignment with Business Priorities**

- Systems supported revenue integrity, settlement accuracy, and regulatory scrutiny with clear ownership and workflows.

Where it breaks down today

- **Fragmented System Landscape**
 - Multiple overlapping financial systems cause complexity and inefficiency in processes and workflows.
- **Limited Real-Time Visibility**
 - Heavy reliance on batch processing and manual interventions restricts real-time financial insights.
- **Cascading Change Impacts**
 - Changes in one system lead to cascading effects across platforms, increasing testing and audit efforts.
- **Data Limit Analytics**
 - Valuable information remains fragmented across operational systems and fails to integrate effectively into the data warehouse, restricting enterprise-wide insights and decision-making.

Financial and risk impact (executive lens)

- **High Operating Costs**

- Legacy systems drive up expenses due to continuous monitoring, testing, and support requirements under regulatory compliance.

- **Manual Financial Processes**

- Financial close and reporting depend on manual reconciliations and data consolidation, increasing labor costs and inefficiencies.

- **Risk from Key-Person Dependencies**

- Specialized knowledge concentrated in few individuals creates vulnerability during personnel changes or system transformations.

- **Complexity and Upgrade Risks**

- System complexity increases risks during upgrades or platform changes, impacting profitability and risk profiles.

Executive takeaway: modernization strategy

- **Legacy Systems as Foundation**
 - Legacy systems remain effective and provide a stable, trusted base for financial operations.
- **Enhanced Data Accessibility**
 - Introducing layers to improve data access enables advanced analytics and AI-driven insights without losing control.
- **Building Integrated Data Platforms**
 - Aggregating and harmonizing data from legacy systems supports real-time insights and predictive capabilities.
- **Strategic Modernization Decision**
 - Executives must decide between absorbing legacy limitations or investing in modernization for growth and innovation.

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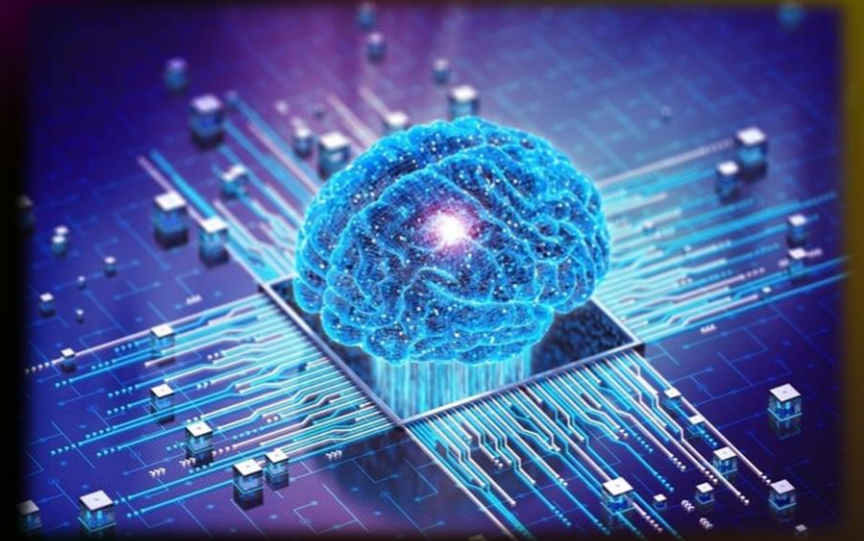
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- **Present applications for AI**

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- Future of AI, and how we get there



AI adoption: opportunity, risk, and leadership priorities

- **AI adoption today**
 - Most organizations are moving from experimentation to targeted deployment, with early value concentrated in focused use cases rather than enterprise-wide transformation.
- **Why governance matters**
 - As AI use expands, organizations need clear oversight to manage operational, regulatory, and reputational risk.
- **Responsible AI focus**
 - Responsible AI requires principles, controls, and lifecycle oversight so models are used safely, transparently, and as intended.
- **Implications for finance leaders**
 - Finance leaders should align AI investments to business value, define decision rights, and ensure governance is built into adoption from the start.

Representative AI use cases in today's environment

- **Workforce productivity and knowledge support**
 - AI helps teams draft content, summarize information, search internal knowledge, and accelerate routine analysis.
- **Workflow and process automation**
 - AI can structure unorganized inputs, generate next-step actions, and reduce manual effort across recurring processes.
- **Decision support in business tools**
 - AI is being embedded into finance, document, and analytics platforms to improve speed, insight, and user productivity.

AI adoption today across organizations

- **Targeted deployments**

- Most organizations are moving beyond experimentation into focused deployment. Adoption is typically centered on a defined set of use cases where value, risk and ownership can be managed more clearly.

- **Why adoption remains uneven**

- Progress is often constrained by fragmented data, unclear governance and limited change readiness. As a result, adoption varies widely by function, depending on process maturity, leadership alignment and trust in outputs.

- **Finance Leadership Implications**

- Leaders should prioritize use cases linked to measurable business value and establish clear decision rights, controls and accountability. The near-term opportunity is not broad transformation alone, but disciplined scaling of AI where the organization is ready to adopt it effectively.

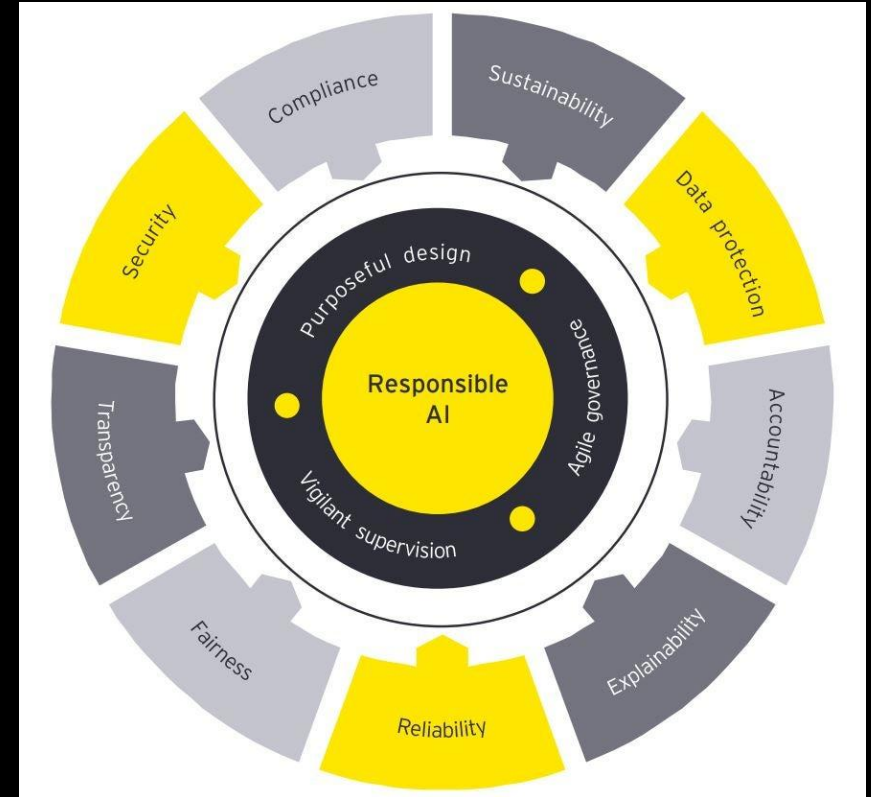
Why AI governance matters

- Why governance is essential:
 - Protects sensitive data and privacy
 - Improves reliability and reduces bias
 - Supports regulatory compliance
 - Defines accountability for decisions and outcomes
- Organizations that scale AI successfully pair innovation with governance. Clear policies, ownership, and oversight help reduce risk while increasing confidence in how AI is deployed.
- Governance is not only a control function. It is a business enabler that supports responsible adoption, stronger decision-making, and more sustainable value creation.

▪ [EY survey: companies advancing responsible AI governance linked to better business outcomes](#)
[| EY - Global](#)

EY responsible AI principles

- EY's Responsible AI approach is built around nine principles that help organizations scale AI with trust, accountability, and business discipline.
 1. Fairness
 2. Accountability
 3. Transparency
 4. Explainability
 5. Security
 6. Privacy
 7. Reliability
 8. Compliance
 9. Sustainability



AI control environment & auditability

- Effective AI control environments combine clear accountability, disciplined oversight, and audit-ready evidence across the model lifecycle.
- Define governance, roles, and decision rights so accountability for AI design, use, and risk management is explicit.
- Maintain documentation and traceability for data, models, assumptions, changes, and key decisions from development through deployment.
- Implement ongoing monitoring and risk controls for performance, drift, bias, security, and regulatory compliance.
- Embed human oversight, review thresholds, and approval checkpoints for high-impact outputs, exceptions, and model changes.
- Retain audit-ready evidence and logging that support independent review, issue remediation, and defensible reporting.

Finance leadership implications

- Finance is still in the early stages of AI adoption, with selective, practical use cases beginning to show value in areas such as variance analysis, forecasting support, reconciliations, close support, policy and compliance review, and narrative drafting for management reporting.
- Finance leaders should participate actively in AI governance for financial processes, partnering with risk, legal, IT, data, and internal audit to define use cases, establish controls, and validate outputs rather than leading governance independently.
- Successful AI governance is typically cross-functional; finance plays a key role in controls, oversight, and validation of AI use in reporting, forecasting, close, and compliance-related activities.



Key questions to consider

- Am I understanding where AI is applied and am I forming the foundation for effective oversight and governance?
- Am I evaluating higher-risk AI uses to ensure proper controls are in place to prioritize governance efforts accordingly?
- Am I monitoring AI performance and outcomes to help governance align with real-world risks and effectiveness?

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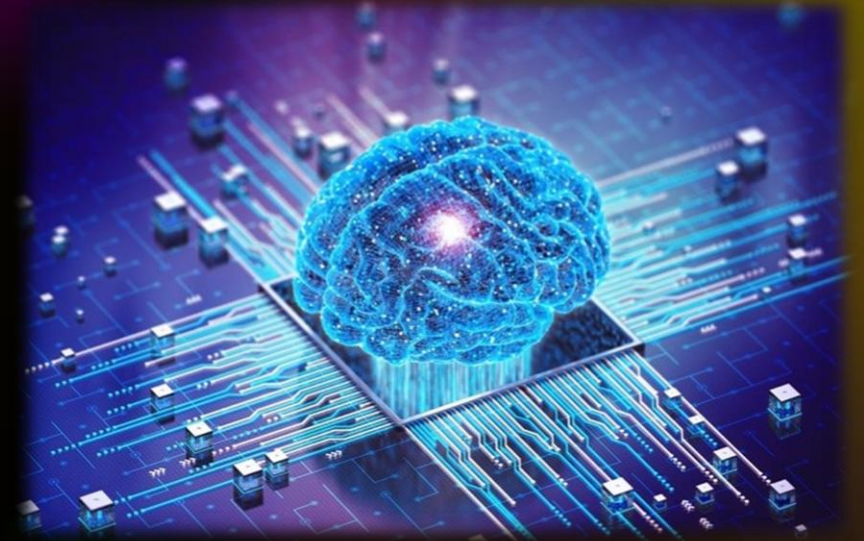
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Next step - agentic AI

Agentic AI moves beyond traditional AI models to systems capable of autonomous decision-making, planning and learning. Unlike generative AI, which requires specific prompts, agentic AI takes independent actions to achieve objectives, transforming the way we interact with technology and revolutionizing various industries.

Key highlights

Autonomy and chaining

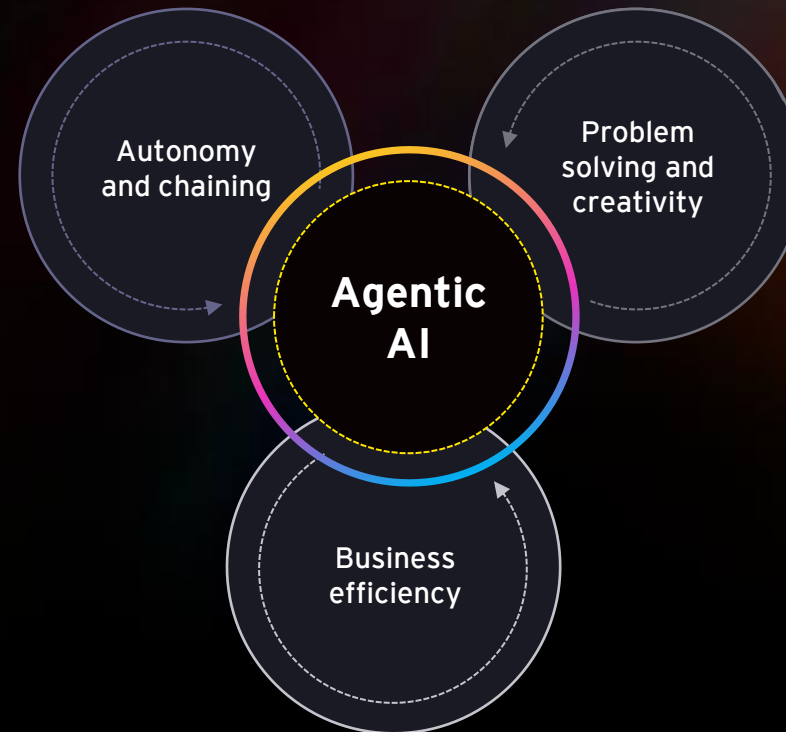
- Agentic AI can autonomously handle complex tasks by breaking them into steps, significantly reducing human intervention.

Problem solving and creativity

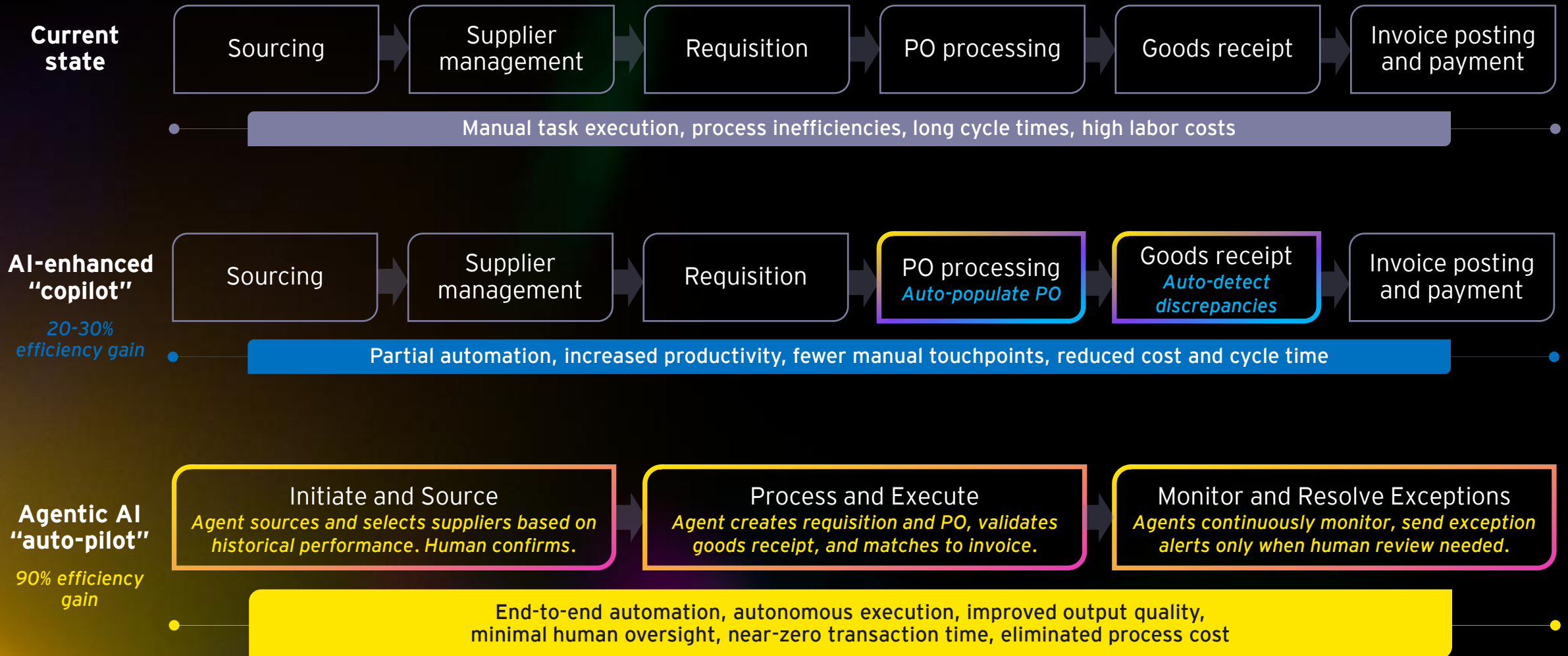
- Beyond executing tasks, agentic AI adapts to deliver creative solutions and solve intricate problems.

Business efficiency

- It automates workflows, enhancing productivity and reducing errors, thus optimizing operations across sectors.



Where AI is headed - procure to pay example



The path to enhanced agentic AI

- Potential accelerator - Quantum Computing
- Around theoretically since the 80s, but investment by large industry players since the early 2000s has led to breakthroughs
- Classical computing uses bits, 0 or 1 while quantum computing uses qubits which can be 0 or 1 or both
- Amplitudes sculpt qubits by canceling out wrong answers and adding together right answers, so the probability of correct outcomes is increased in comparison to classical computing

"Quantum computing is nearing a breakthrough phase similar to where AI was five years ago."

- Google CEO Sundar Pichai

"[We are on track to have] the first fault-tolerant quantum computer by 2029...quantum is going to solve problems that AI is currently incapable of."

- IBM CEO Arvind Krishna

How AI can progress with quantum:

- It should not be AI vs. quantum, but rather AI with quantum.
- AI was in a theoretical stage, then experimental, and became commercially useable.
- Quantum was theoretical, now experimental, expected to soon become commercially useable.
- AI requires massive computing power; quantum computing could play a specialized role allowing more efficient AI models that enable AI to be more scalable with better accuracy, faster recognition, and the ability to solve previously unsolvable problems.

Future applications in industry

Science & Healthcare

- Paired with quantum, AI could identify exponentially more drug targets from massive biological datasets.
- Quantum may allow a molecular environment to be simulated more accurately, where AI interprets the results.

Finance & Strategy

- AI paired with quantum could model market trends in a more accurate way based on true probabilities.
- AI interprets results while quantum expands the range of scenarios that can be analyzed simultaneously.

Risk & Compliance

- Risk frameworks may more accurately model risk and control interactions when pairing AI with quantum.
- With the combination of AI and quantum, a sampling approach may no longer be necessary, as all transactions may be analyzed in real time.

Closing thoughts

Update - Few Highlights of

Federal Tax Update - Few Highlights of OBBBA



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Welcome



Archana Shankarnarayanan

Senior Manager, Federal Tax Advisory Practice, Specializing in research credits, capitalization, accounting periods and methods

Agenda



I OBBBA - What's that?

II OBBBA Changes - 163j

III OBBBA Changes - Sec 174

IV OBBBA Changes - Depreciation

V Texas Changes

OBBBA - What's that?



OBBBA – What's that?

- Many Names, but the intent is the same... overhaul of TCJA tax laws
- OBBBA stands for the One Big Beautiful Bill Act – a major U.S. federal tax law (P.L. 119-21) signed by President Trump on July 4, 2025.
- OBBBA is a common colloquial and media name, but not an official legal title.
- Officially, its simply titled “An Act to provide for reconciliation pursuant to title II of H. Con. Res. 14”

OBBBA – What's that?

- **Purpose and objectives:**
 - Makes permanent key business tax provisions that were set to expire
 - Restores investment incentives (bonus depreciation, R&D expensing)
 - Provides long-term tax rate certainty for multi-year planning
- **Industries and companies most affected:**
 - Capital-intensive businesses (manufacturing, technology, energy)
 - R&D-driven companies across all sectors
 - Pass-through entities and closely-held businesses
 - Organizations with significant deferred tax positions

Why OBBBA Matters to Finance Leaders

- **Financial reporting impact:**
 - Deferred tax assets and liabilities require reassessment under ASC 740
 - Bonus depreciation and R&D expensing changes affect effective tax rate in 2025
 - Permanent provisions reduce forecast uncertainty in long-range models
- **Cash flow and capital planning:**
 - 100% bonus depreciation accelerates tax benefits on capital expenditures
 - Restored R&D expensing improves near-term cash flow for innovation spending
 - Wider interest deductibility supports leverage and financing decisions
- **Why act now:**
 - Most provisions are effective for tax years beginning in 2025
 - Q3 2025 financial statements were the first to reflect these changes
 - Ongoing IRS and Treasury guidance continues to refine implementation

OBBBA - 163j



Section 163(j) - Interest expense limitations

Summary

- Elective capitalization of interest expense (i.e. under Section 266, Treas. Reg. 1.263(a)-2, Treas. Reg. 1.163-8T) will no longer avail taxpayers of Section 163(j) limitations for those amounts for tax years beginning after December 31, 2025
 - Section 163(j)(5) is amended by adding at the end the following new sentence: "Such term shall not include any interest which is capitalized under section 263(g) or 263A(f)" apply to taxable years beginning after December 31, 2025.
 - This inclusion within the law recognizes that the planning we have done historically to electively capitalize, and can still do through 2025 tax returns, has merit within the code prior to these changes
- The OBBA reinstated the EBITDA provisions for purposes of determining interest expense limitations
 - Generally provides one tax years in which taxpayers may realize benefit for BOTH elective interest expense capitalization and tax DA

Initial planning ideas

- Optimize elective interest capitalization provisions for purposes of Section 163(j) in the last year (i.e. 2025 calendar year) it is available
 - Review the balance sheet to ensure that you have reviewed all potential basis that could attract interest expense including inventory, accounts receivable, construction-in-progress, software development, prepaid assets, etc.
 - Determine if elective interest expense capitalization has benefits to the profile for tax years going forward (i.e. 2026 calendar year and beyond) related to state Section 163(j) where states decouple from OBBBA, Section 59A BEAT planning, Section 861 foreign source income/FDII planning
- Review tax basis planning ideas to generate additional tax depreciation and amortization for purposes of maximizing EBITDA
 - Tax elections available to create and/or increase tax basis over book basis such as Treas. Reg. Section 1.263(a)-4, Section 266
 - Tax accounting methods available to create and/or increase tax basis over book basis such as Section 263(a), Section 263A, etc.

Depreciation & Amortization Recharacterization – Tax Basis Planning

With depreciation and amortization (“DA”) now included within the ATI calc, there is opportunity to create tax basis above and beyond book basis, thereby creating DA to drive additional recovery of interest expense

Deductions

- Insurance
- Non-capitalized supplies, materials and repairs
- Sales/procurement functional costs
- Overhead costs

Eligible property examples

- Fixed asset basis
- Construction in process
- Contract asset basis (sales contracts, vendor contract)
- Software assets

Recharacterized deduction examples

- Depreciation on fixed assets
- Amortization of insurance
- Amortization of contract assets

Section 163(j) - DA Generation Opportunities

Summary

- With depreciation and amortization (“DA”) now included within the ATI calc, there is opportunity to create tax basis above and beyond book basis, thereby creating DA to drive additional recovery of interest expense
- The below chart summarizes some of the areas of opportunity, most will require net present value considerations and modeling

Code Section	Opportunity	Section 163(j) DA Impact	Method Change Considerations	Notes
Section 174	- Continue to capitalize and amortize Section 174 costs, potential to file method change to increase costs	- Creates additional amortization that retains character for Section 163(j)	- Automatic method change	- To the extent deduction method is adopted, use Section 59(e) to create amortization
1.263(a)-4 - Contract costs	- Elect to capitalize deductible costs (i.e. sales wages) to contract costs and amortize over life of contract	- Converts current year deductions to amortization	- No Section 481(a) impact, election only	- Ability to elect on a contract-by-contract basis
1.263(a)-1(f) de minimis election	- Modify capitalization process to capitalize items that would typically be expensed under the current capitalization threshold	- Converts current year deductions into depreciation	- To the extent the de minimis election statement was not filed historically, potential for method change and Section 481(a) benefit	- Leverage single asset accounting to capitalize groups of assets vs. individual - Cannot pick and choose, need to apply consistently
Section 263A(f) - Mandatory interest capitalization	- File method change to capitalize interest to tax fixed asset basis - Creates both tax basis AND recharacterizes interest expense under mandatory vs. elective capitalization	- Converts current year interest to depreciation - Section 481(a) would include impact to Section 163(j) carryforward	- Automatic method change	- Can generally utilize data from book process - Mandatory interest capitalization benefits Section 163(j) for 2025 tax years

Section 163(j) - DA Generation Opportunities

Summary

- With depreciation and amortization (“DA”) now included within the ATI calc, there is opportunity to create tax basis above and beyond book basis, thereby creating DA to drive additional recovery of interest expense
- The below chart summarizes some of the areas of opportunity, most will require net present value considerations and modeling

Code Section	Opportunity	Section 163(j) DA Impact	Method Change Considerations	Notes
Section 266 - Capitalization of costs to fixed assets	- Elect to capitalize costs to basis of fixed assets (such as interest, taxes, other carrying charges, etc.)	- Generate additional current year depreciation - Interest recharacterization will not have 163(j) benefit in 2026+ tax years	- No Section 481(a) impact, election only	- Potential to target bonus eligible property for immediate expensing
Section 263A - Self-Constructed assets	- File method change to capitalize additional costs (indirect costs) to self-constructed assets for tax	- Converts current year deductions into depreciation - Depreciation within Section 481(a) retains character	- Non-auto method change	
1.263(a)-4 - Insurance costs	- Determine portion of insurance costs that should be classified as amortization for tax vs. SG&A Section 162 deduction	- Recharacterizes Section 162 SG&A deductions in to amortization	- Likely no method change needed - Annual election may be needed to amortize any prepaid insurance that is accelerated under the 12-month rule	

OBBBA - R&D



Research Expenditures – Legislative Changes

- ▶ For *domestic* research expenditures (including software development expenditures) paid or incurred in tax years beginning after December 31, 2024, taxpayers may choose to –
 - ▶ Immediately deduct such expenditures when paid or incurred (Section 174A(a))
 - ▶ Capitalize and amortize such expenditures ratably over no less than 60 months, beginning with the month in which the taxpayer first realizes benefits of the expenditures (Section 174A(c))
 - ▶ Make a Section 59(e) election to amortize such expenditures ratably over 10 years, beginning with the tax year in which the expenditure is made
- ▶ Domestic research expenditures paid or incurred in tax years beginning after December 31, 2021, and before January 1, 2025, (the TCJA Period) remain subject to capitalization and 5-year amortization under “TCJA” Section 174; however, the new legislation allows taxpayers to elect to change their amortization method to recover the unamortized balance either (i) in full in the first tax year beginning after December 31, 2024, or (ii) ratably over the 2-taxable year period beginning with the first tax year beginning after December 31, 2024 (the Accelerated Amortization Method).

Research Expenditures – Legislative Changes

- ▶ The new legislation amends Section 280C(c) to provide that domestic research or experimental expenditures (whether deducted or capitalized and amortized) are reduced by the amount of the credit allowed under IRC Section 41, unless a reduced credit election is made.
- ▶ Retroactive application available for small taxpayers
- ▶ Foreign research expenditures remain subject to mandatory capitalization and 15-year amortization
 - ▶ New legislation amends Sections 174(d) and Section 1016 to provide that (1) capitalized research expenditures give rise to basis in resulting research IP, and (2) unamortized capitalized research expenditures do not reduce amount realized from sale of research IP.

Revenue Procedure 2025-28

Revenue Procedure 2025-28 provides the procedural guidance for taxpayers to implement changes made by the new legislation:

Change to comply with the TCJA Section 174 capitalization and amortization rules for domestic and foreign research expenditures paid or incurred during the TCJA Period.	Automatic if made for 2024 tax year. Potentially Nonautomatic for later tax years (due to “prior 5-year change” limitation). Form 3115 required. Made with an IRC Section 481(a) adjustment.
Change to comply with amendments to Section 174 for foreign research expenditures paid or incurred in 2025 and later tax years	Only automatic if made for 2025 tax year. Statement in lieu of Form 3115. Made on a cut-off basis
Change to apply new Section 174A(a) to immediately deduct domestic research expenditures paid or incurred in 2025 and later tax years	Only automatic if made for 2025 tax year. Statement in lieu of Form 3115. Made on a cut-off basis
Change to apply new Section 174A(c) to “elect” to capitalize and amortize domestic research expenditures paid or incurred in 2025 and later tax years	Only automatic if made for 2025 tax year. Statement in lieu of Form 3115. Made on a cut-off basis
Change to the Accelerated Amortization Method for domestic research expenditures capitalized during the TCJA Period	Only automatic if made for 2025 tax year. Statement in lieu of Form 3115. Made on a cut-off basis
Small business taxpayer election to apply new Section 174A and amended 280C(c) retroactively (for domestic research expenditures paid or incurred during the TCJA Period)	<ul style="list-style-type: none"> • Can make election on 2024 return, then file amended 2022 and 2023 returns by July 6, 2026 • Alternatively, can make election via a statement in lieu of Form 3115 with the 2024 return, made with an IRC Section 481(a) adjustment • Late “reduced credit” election/election revocation under Section 280C(c) provided

Revenue Procedure 2025-28 - Key Take-Aways

- ▶ Revenue Procedure 2025-28 provides simplified procedures for implementing the options provided by the new legislation
- ▶ Election to capitalize and amortize domestic research expenditures under new Section 174A(c) is treated as a method of accounting that applies to **ALL** domestic research expenditures paid or incurred in the year of the election and later years, unless the IRS provides consent to change to another method (on a cut-off basis). Section 59(e) elections can be made on an annual basis for any dollar amount. Accordingly, Section 59(e) elections will likely be the preferred choice for taxpayers that desire to capitalize and amortize domestic research expenditures.
- ▶ Changes to implement the options provided by the new legislation are generally not available to be made under the automatic consent procedures in 2026 and later (in some cases automatic consent changes are unavailable for 2025). Accordingly, Revenue Procedure 2025-28 incentivizes taxpayers to come into compliance with the new legislation on a timely basis.

Revenue Procedure 2025-28 - Key Take-Aways

- ▶ Taxpayers should carefully model out the election/method change options provided in the Revenue Procedure due to the impact these options can have on other provisions of the Code, including:
 - ▶ Corporate alternative minimum tax (CAMT) under Section 55
 - ▶ Base erosion and anti-abuse tax (BEAT) under Section 59A
 - ▶ Deduction for foreign-derived intangible income (FDII) under Section 250
 - ▶ Limitation on business interest under Section 163(j)
 - ▶ Foreign tax credits
 - ▶ State conformity issue

U.S. Research Tax Credit

Overview

The US provides tax incentives to encourage businesses to increase investments in new and improved products and processes. Tax incentives include research credits that directly reduce a company's tax liability as well as immediate deductions for qualifying expenses. Companies can benefit from both the credits and deductions on the same expenditures. Additionally, the majority of states offer incentives for research and development.

New or improved business components that are sold, licensed or used by the taxpayer includes: products, processes, computer software, techniques, formulas and inventions.

Benefits

Cash tax savings from combined federal and state research credits range from 10%-20% of the identified qualified expenses. In addition, the ability to immediately deduct qualifying expenditures will further increase the return on investment.

Cost types includable for the Research Tax Credit

- ▶ Employee Wages
- ▶ Contract Research
- ▶ R&D Materials/Supplies
- ▶ Prototypes
- ▶ Pilot Models
- ▶ Cloud Services

Does the project or components of the project possess the following?

- New or Improved product, processes, computer software, techniques, formulas and/or inventions
- Utilizes technology and/or software to achieve the new or improved item
- Has an element of technical uncertainty related to the appropriate design of the item or if all the desired goals can be achieved
- Involves a process development, including design iterations, evaluations, testing and/or validations

If the project or components of the projects can check these boxes, then the costs associated may qualify for research credits and immediate benefit.

U.S. Research Tax Credit Qualifiers

To qualify for the tax credit, you must meet all four of the following qualifiers unless you are dealing with software.

1

Relates to a business component

Must relate to a new or improved business component that is sold or licensed or used by the taxpayer and includes one or more of the following:

- ▶ Product
- ▶ Process
- ▶ Computer software
- ▶ Technique
- ▶ Formula
- ▶ Invention

2

Utilizes science and technology

Must involve research and development in the “hard” sciences, including one or more of the following:

- ▶ Computer Science
- ▶ Engineering
- ▶ Physical Science

3

Possesses technical uncertainty

Activities must be intended to eliminate a technical uncertainty, which means the taxpayer did not know one or more of the following:

- ▶ If it could achieve the desired result
- ▶ How to achieve the desired result
- ▶ The appropriate design

Even if a taxpayer knows that it can achieve the end goal but is uncertain about how to develop or the appropriate design, then the costs may still qualify.

4

Evaluates alternative options

A taxpayer must evaluate one or more alternatives in efforts to eliminate the uncertainty. A process of evaluating alternatives or hypotheses may encompass both formal and informal approaches, including:

- ▶ Modeling
- ▶ Simulation
- ▶ Prototypes
- ▶ A systematic trial and error methodology

5

Is highly innovative

The software results in or was intended to result in one the following:

- ▶ Reduction in cost
- ▶ Improvement in speed
- ▶ Other improvement that is substantial and economically significant

6

Has significant economic risk

Software is developed at significant economic risk to the taxpayer when the taxpayer:

- ▶ Commits substantial resources
- ▶ It is uncertain as to whether those resources can be recovered in a reasonable period of time due to technical risk

7

Is not commercial availability

Software being developed is not commercially available or would require substantial modification to meet taxpayer’s requirements.

These additional three qualifiers are required for software used to perform general and administrative functions.¹

U.S. Federal Research Tax Credit

Qualified Research Expenses (QREs)



W-2 wages

Wages of those employees directly performing, supervising and supporting qualifying R&D activities



Contract research

Expenses related to third parties directly performing or supporting R&D activities on behalf of the taxpayer



Computer lease costs

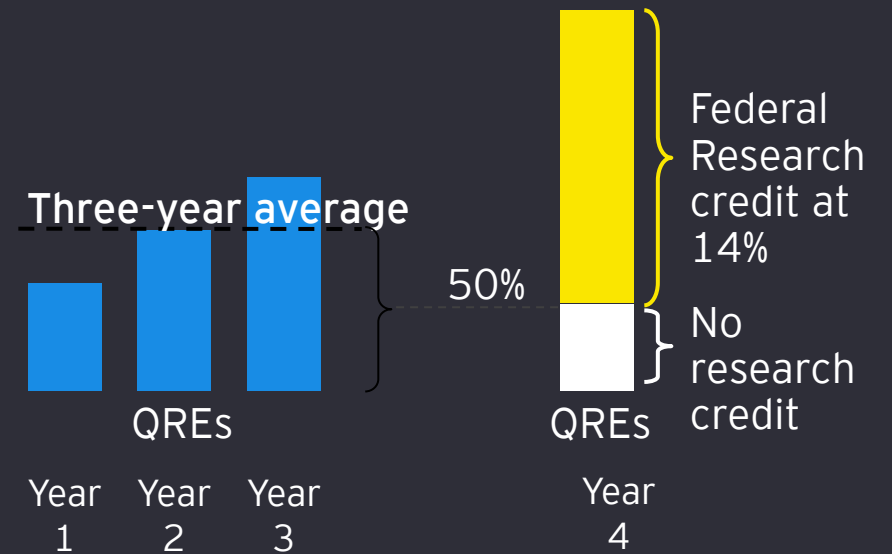
Example: cloud lease costs that support the development and sandbox environment sandbox



Supplies

Supplies and materials not subject to depreciation

Alternative Simplified Credit Calculation



- ▶ Majority of states have enacted research credit regimes similar to the federal research credit

OBBBA - Depreciation



Federal Tax implications

100% bonus depreciation under §168(k)

Technical Overview

- Taxpayers may claim 100% bonus depreciation on “qualified property” acquired after January 19, 2025.
- A taxpayer is generally treated as acquiring property on the date it enters into a written binding contract to acquire the property, with specific rules regarding acquisition date in place for self-constructed property, which includes property constructed on a taxpayer’s behalf by a third party.
- Taxpayers can choose to elect out of 100% bonus depreciation for one or more classes of property.

Market Opportunity

- EY can assist clients in determining whether property placed in service after January 19, 2025, satisfies the various eligibility requirements (including the acquisition date requirement) to claim 100% bonus depreciation. EY can also assist clients in modeling depreciation election options.
- EY’s proprietary depreciation software (Vector) includes significant modeling capabilities around bonus depreciation and other depreciation related elections.

Federal Tax implications

Special depreciation allowance for qualified production property under §168(n)

Technical Overview

- 100% depreciation allowance for US nonresidential real property (or portion thereof) used as an integral part of qualified production activity. To qualify, construction must begin after January 1, 2025, and before January 1, 2029, and the property must be placed in service before January 1, 2031.
- Qualified production activity = manufacturing, production, or refining of tangible personal property (other than food or beverages products prepared and sold onsite) that results in a “substantial transformation” of the property; “Production” limited to agricultural and chemical production; No limitation on “manufacturing” or “refining.”

Market Opportunity

- EY can assist clients in determining whether property qualifies for the special depreciation allowance, including advising on the beginning of construction requirement and whether activities undertaken are qualified production activities.

Texas - Changes



EY

Building a better
working world

Changes to Texas Depreciation

Texas to align with current IRC and allow bonus depreciation

The policy change simplifies tax compliance, reduces friction, and offers tax relief to capital-intensive businesses.

- Texas will align franchise tax depreciation rules with the current Internal Revenue Code starting in 2026, incorporating federal bonus depreciation.
- The new rules apply to assets placed in service on or after January 19, 2025, linked to enhanced federal bonus depreciation provisions.
- Taxpayers can claim a one-time Net Depreciation Adjustment on the 2026 report (tax year 2025) to address prior accumulated differences.
 - If margin is reduced below zero, unused amount carried forward to future reports until fully absorbed

Changes to Texas R&D Credit

Texas moving away from Auditing R&D credits.

Move towards settling older Audits with approximately 50% adjustment if IDR 1 is satisfactory

Refundable Element

Good time to review applicability of Federal Credit to take advantage of Changes in Texas R&D credit rules

- Taxpayers with qualified research expenses (QREs) are allowed to claim the new R&D tax credit against franchise tax credit for certain R&D expenses with a new franchise tax credit for R&D expenses. These changes take effect on **January 1, 2026**.
- Adheres to federal R&D tax credit
- Accepts Statistical Sampling as a method similar to Federal
- Supplies as QREs
 - Supplies properly included in QREs under federal income tax law cannot be excluded on the basis of sales tax treatment of those supplies under Texas Law.
- Increased Credit Amount - increase in rate from 5% to 8.72%
- Refundable Credit
 - If for the current reportable year, franchise tax is zero, certain taxpayers are entitled to refundable credit. Benefit for clients that are pre-revenue or still in early start up stages.



Q&A

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