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The One Big Beautiful Bill: Another Octane Booster for the Fuels Distribution and Convenience Retailing Industry

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The Tax Cut and Jobs Act of 2017 ("TCJA") provided an array of tax changes supportive of a strong M&A market, many of which were set to expire at the end of 2025 or continue on a sunset path for the next several years. While there are a range of economic factors that have an impact on M&A activity and valuations, the phase out of some of the TCJA provisions had many market participants and spectators concerned that the looming sunset period could have a chilling effect on the market.

Then came the One Big Beautiful Bill ("OBBB"). Introduced on May 20, 2025, the bill contained much of President Trump's proposed tax and spending campaign platform and went through over a month of stumping by supporters and opponents. Ultimately, the bill was narrowly passed by the Senate and House of Representatives and signed into law on July 4, 2025.

Matrix published a refresher on the key features of the TCJA as it relates to mergers and acquisitions and corporate capital investment in the March/April 2023 IGM issue, and this article serves as an update focusing on the facets of the OBBB that are most relevant to the same topics for business owners in the fuels distribution and convenience retailing ("FDCR") industry.

100% Year One Expensing for Qualifying Capital Investments

For some historical context, prior to the TCJA being signed into law, Section 168(k) of the tax code allowed for additional first year 'bonus depreciation' to be deducted on certain qualifying property. Under this provision, 50% of the adjusted basis of 'original use' property, which was considered to be new rather than used, could, but was not required to, be depreciated and expensed during the year in which it was acquired. An asset could qualify for this bonus depreciation by meeting certain criteria, but the broadest and most applicable characteristic was for the property to have a regular depreciable life (tax-basis) of 20 years or less. Broadly speaking, this threshold included most tangible personal property and excluded most real property (e.g. land and buildings – although convenience store/gas station buildings would typically qualify as 15-year property).

The TCJA retained the framework of Section 168(k) bonus depreciation, but also expanded it in several key ways. First, taxpayers were allowed, starting in 2018 and through 2022, to deduct 100% of qualifying property and immediately expense it in the year of acquisition rather than depreciating it over multiple years. Beginning in 2023, this provision entered a stepdown period in which smaller percentages of bonus depreciation could be taken in year one. The stepdown period schedule of year one expensing of qualifying property was scheduled as follows: 2023 (80%), 2024 (60%), 2025 (40%), 2026 (20%). The second key change to the provision was the requirement that the property must be 'original use' was removed, which allows complete first year expensing of qualifying assets, regardless of age, so long as it is the taxpayer's first use of the property.

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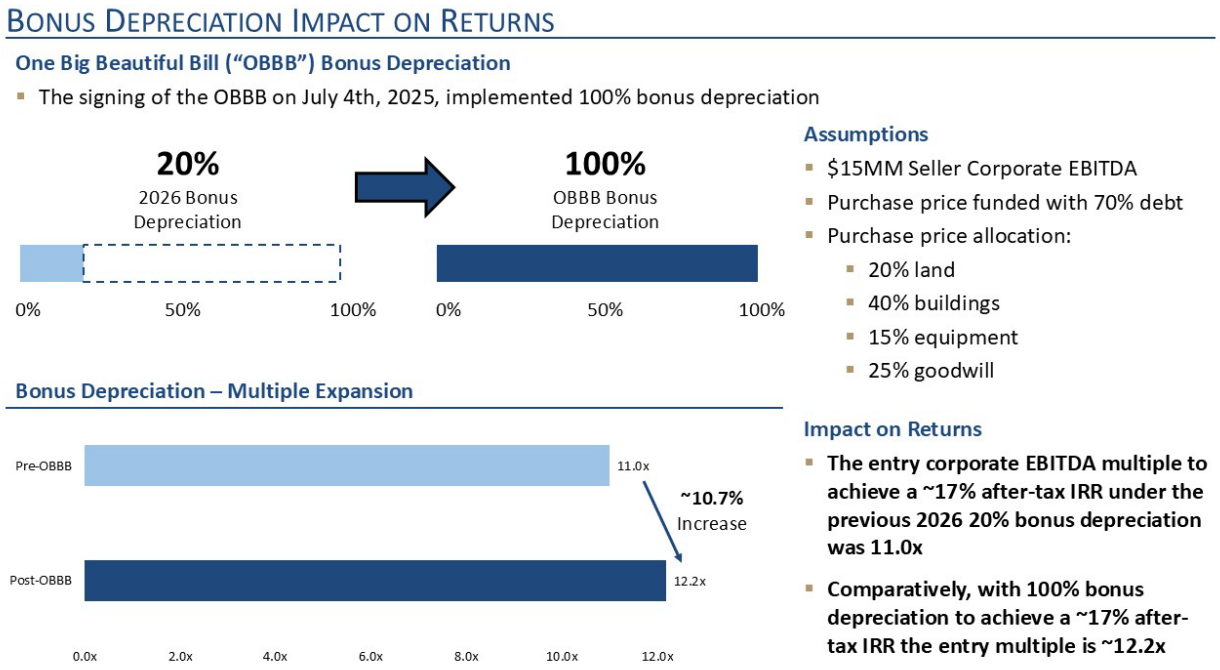
The OBBB reverts to and makes permanent the original TCJA 100% year one depreciation of Section 168(k) qualified property acquired and placed in service after January 19th, 2025. Outlined in the exhibit below is the example impact to the internal rate of return ("IRR") for an acquiror in an M&A transaction based on the shift from the 20% bonus depreciation that would have been available in 2026 if not for the OBBB versus the 100% bonus depreciation rate provided by the OBBB. The example assumes an asset structure transaction with 70% of the total purchase price being funded with debt and the remaining 30% through cash equity. For the IRS form 8594 purchase price allocation, 40% is assumed to be allocated to buildings and 15% to equipment (categories used in this example are assumed to be subject to bonus depreciation). Based on the assumptions in this example, a buyer could pay ~11% more with 100% bonus depreciation and achieve the same internal rate of return versus if they only receive year one bonus depreciation of 20%. While the characteristics of each transaction are unique, this example illustrates the power of the time value of money and the impact that accelerated depreciation can have on returns and the ability for buyers to pay more for businesses due to this provision.

Example Impact on the Internal Rate of Return of the Shift Back to 100% Bonus Depreciation



Business Interest Deduction Limitation

Section 163(j) of the tax code generally limits the tax deductibility for business interest expense to 30% of adjusted taxable income ("ATI"). Prior to 2022, ATI was based on earnings before interest, taxes, depreciation and amortization ("EBITDA"). Beginning in 2022, adjusted taxable income was calculated on earnings before interest and taxes ("EBIT"), which is net of non-cash expense amounts for depreciation and amortization and had the effect of decreasing the cap on the deductibility of interest expense for tax purposes. For tax years beginning after December 31, 2024, the OBBB permanently reinstates EBITDA as the metric being used to establish adjusted taxable income. The OBBB also requires interest expense that has been capitalized along with the assets acquired utilizing the debt (such as inventory or fixed assets) to be included in the amount of interest measured in the 30% ATI cap. This can also limit the amount of interest expense reflected in the P&L that can fall within the 30% cap.

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Despite the interest capitalization provision, generally speaking, the switch back to EBITDA from EBIT as the measure of ATI increases the cap on deductibility of interest expense and the corresponding tax shield effect. This is especially relevant for businesses with significant section 168(k) assets eligible for the previously mentioned bonus depreciation or those that have made acquisitions for which there would likely be a portion of the purchase price allocated to goodwill, which is amortized for tax purposes.

The table below is an example illustration of the potential impact of the OBBB interest deduction provision. While the figures are purely illustrative, in this case the use of EBITDA rather than EBIT as the benchmark for ATI results in a 50% increase in the interest deduction.

As a result, in the case of an acquisition, a buyer could theoretically utilize additional debt to fund the purchase and achieve a point of equilibrium at which they would achieve the same after-tax free cash flow. The reduced equity contribution in this scenario would allow for either a greater IRR or allow the buyer to increase the purchase price and achieve the same IRR.

OBBB Business Interest Deduction Provision Example		
Component	**Pre-OBBB**	**Post-OBBB**
Taxable Income	$2,500,000	$2,500,000
Plus: Interest Expense	$7,380,000	$7,380,000
Plus: Interest Income	$120,000	$120,000
Plus: Depreciation	$0	$3,000,000
Plus: Amortization	$0	$2,000,000
Equals: Adjusted Taxable Income	**$10,000,000**	**$15,000,000**
30% Interest Deduction Limit	**$3,000,000**	**$4,500,000**

Expansion of Section 1202 Benefits for Small Business Stock

While Section 1202 of the tax code has been in existence since 1993, the OBBB made several modifications that are beneficial for owners selling a business. The original provisions of Section 1202 allowed non-corporate taxpayers to exclude a specified percentage of their gains from the sale or exchange of qualified small business stock ("QSBS") held for at least five years. This generally includes stock issued by domestic C-Corporations with gross assets that do not exceed $50 million and that do not conduct certain non-qualifying trades or businesses (which generally includes service providers such as legal, healthcare, accounting, etc. whose primary asset is human capital). Prior to the advent of the OBBB, the amount of gain that could be excluded was generally limited to the greater of either $10 million or 10 times the aggregate adjusted bases of the QSBS issued by the corporation and sold during the taxable year.

The OBBB ushered in the changes to Section 1202 outlined in the table on the following page for QSBS issued after July 4th, 2025, while QSBS issued prior to this date must adhere to the pre-OBBB rules. The new parameters for QSBS stock issued subsequent to the OBBB allows for gain exclusions as soon as three years after issuance on a graduated basis through year five. The new regulations also increase the gross asset limitation threshold to $75 million and the gain exclusion cap to $15 million or 10 times the basis of the corporation's QSBS that is sold. The gross asset limitation and flat dollar exclusion cap both include an inflation indexing feature to allow for what would ostensibly be future increases in the amounts.

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Section 1202 Qualified Small Business Stock Benefits		
Feature	**Pre-OBBB**	**Post-OBBB**
Stock Holding Period Requirement	5 years	Lowered to 3 years and instituted a tiered system: (i) 50% of gain is excluded for QSBS held for 3 years (ii) 75% of gain is excluded for QSBS held for 4 years (iii) 100% of gain is excluded for QSBS held for 5 years
Gross Asset Limitation Threshold	$50 million	$75 million (indexed for inflation)
Single Issuer Exclusion	$10 million	$15 million (indexed for inflation)

While Section 1202 is tailored only for a subset of businesses given the parameters around corporate structure (C-Corporation), company size and transaction type (stock sale), among others, it can provide meaningful tax savings in the event of a sale or liquidity event and particularly in the context of stock issued subsequent to the OBBB.

Qualified Business Income Deduction

Section 199A of the TCJA was designed to provide tax relief through a qualified business income deduction ("QBI") to sole proprietorships and pass through entities such as S-Corporations that did not receive the benefit from the reduction of the federal C-Corporation tax rate to 21%. There is quite a bit of nuance in terms of the practical application of the QBI that is beyond the intended scope of this article, but generally speaking, the deduction is equal to the lesser of 20% of qualified business income plus 20% of qualified real estate investment trust ("REIT") and qualified publicly traded partnership ("PTP") income, or 20% of taxable income, less net capital gain. QBI is the net amount of qualified income, gain, deduction, and loss with respect to any qualified trade or business of the taxpayer; however, it does not include any qualified REIT dividends or qualified PTP income. Combined QBI is the aggregate of the deductible amount for each of a taxpayer's qualified trades or businesses plus 20% of the taxpayer's aggregate REIT dividends and income from PTPs.

Like many provisions in the tax code, there are a number of caveats and exclusions that impact the application of the QBI provision. There are generally income limitations for the provision, particularly related to professional service businesses, but fortunately the majority of businesses in the fuels distribution and convenience retailing sector sit outside of that definition and would likely take more complete advantage of the provision, subject to the general income limitations.

The QBI 20% deduction from the TCJA was slated to expire on December 31, 2025. As part of the OBBB, this provision has become a permanent part of the tax code and extends what has been a meaningful tax rate reduction for pass-through entities. Had this provision not been extended, the tax burden on pass-through entities would have increased, which would have reduced the free cash generating capability of these businesses, including acquired business assets, and thus require a lower purchase price to achieve the same cash-on-cash return.

Conclusion

While there may be continued debate as to the longer-term impact of the OBBB on the federal deficit and the U.S. economy as a whole, it is clear that many of its provisions are very favorable to those operating, buying and ultimately selling businesses. The provisions outlined in this article are only a subset of the OBBB focused on businesses but have been highlighted as they are most relevant to the fuels distribution and convenience retailing industry, and are meaningful supplements to the historically low tax rates that have been in place since the passage of the TCJA. Operating fundamentals, M&A activity and valuations in the industry have held up very well over the last several years relative to many other industries, and the advent of the OBBB should provide the market additional support for continued strength and potentially enhanced trends over the years to come.

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