BMSS Presents:

A Manufacturing & Distribution Update

Brad Calloway, CLFP
PNC Bank

Steven Nobles, CPA
BMSS Advisors & CPAs

Grant Reese
Burr & Forman

Stephen Von Hagel, CPA, CGMA
BMSS Advisors & CPAs

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What Lenders Are Seeing Across the Manufacturing Community: Where Capital Is Flowing and Where Risk Is Building

BMSS Manufacturing & Distribution Update

Brad Calloway, CLFP | SVP, Equipment Finance Specialist

PNC BANK

The lender's view: Four themes

The most revealing trends are showing up in balance sheets and capital requests.

01 Liquidity has become a competitive advantage.

02 Margin pressure is the biggest credit story right now.

03 Productivity is driving capital investment.

04 Resilience is becoming a key indicator of long-term success.

Tariffs are first a cash-flow event

The pressure often reaches the balance sheet before it reaches a covenant.

- **Supplier cost** - Higher landed input costs
- **Inventory** - Higher inventory values due to cost inflation
- **Receivables** - Higher invoices and possible delays / Longer cash conversion cycles
- **Revolver** - Greater utilization and liquidity need

Margin Pressure Is the Biggest Credit Story Right Now

Revenue growth can mask stress if the business cannot defend gross profit.

Labor – Wages and skilled labor

Materials – Commodity and component costs

Logistics – Freight and warehousing

Pricing – Timing and pass-through ability

What lenders monitor

- Gross margin trend
- EBITDA margin
- Fixed-charge coverage
- Debt-service coverage
- Inventory turnover

Manufacturers are playing offense and defense

The strongest operators are spending selectively while protecting liquidity.

Offense

- Automation
- Productivity equipment
- Capacity tied to committed demand
- Digital and quality investments

Defense

- Supply-chain diversification
- Inventory buffers
- Liquidity preservation
- Cost and pricing discipline

Cost of Capital Certainty: Rate Locks, Forward Starting Swaps, FX Hedging

CapEx is alive, but the hurdle rate has changed

Projects are winning approval when they improve productivity, quality or cash flow.

Today most investments are justified through:

- Measurable labor or throughput benefit
- Clear payback under downside assumptions
- Installation and ramp-up plan
- Equipment value and useful life
- Liquidity preserved after closing

“Nice to have” → “Must earn its keep”

Supply-chain resilience has become a credit attribute

Predictable cash flow increasingly depends on operational preparedness.

Lenders are seeing increased resilience planning:

- Dual sourcing
- Selective inventory
- Domestic options
- Supplier terms

Labor pressure is becoming a productivity discussion

The question is shifting from headcount alone to output per employee.

Old Question

“Can we find enough workers?”

Emerging Question

“How do we produce more with the team we have?”

Implications:

- Automation
- Training / Upskilling
- Process redesign
- Maintenance discipline

What separates resilient credits from pressured credits

Lenders reward evidence of control, not simply a favorable forecast.

Resilient Profile

- Clear pricing strategy
- Diversified customers and suppliers
- Strong liquidity and facility headroom
- Demand visibility
- Productivity-focused investment

Pressured Profile

- Customer concentration
- Weak or declining margins
- Limited liquidity
- High leverage
- Reactive planning and weak reporting

Five questions to ask before the next lender conversation

Good financing outcomes begin before the request is submitted.

1. If input costs rise, what happens to gross margin?
2. How much additional working capital could we need?
3. Are we investing in productivity or only capacity?
4. Where is our supply chain most vulnerable?
5. **What risk would our lender identify first?**

Three takeaways for manufacturers

Capital remains available, but clarity and discipline matter.

1. **Protect liquidity** - Inventory and cost volatility can consume cash quickly.
2. **Fund productivity** - Prioritize investments with measurable operating returns.
3. **Build resilience** - Prepared companies create more predictable cash flow.

The strongest manufacturers are not standing still. They are moving with a sharper investment thesis.

2026 Manufacturing Tax Update

What changed, what closed, and what to do before year-end

Steven Nobles | Senior Manager, BMSS Advisors & CPAs | Mobile, AL

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1 What Counts as R&D

Broader than most people think — and it usually isn't happening in a laboratory.

The test

Are your people solving a technical problem where, going in, they don't know whether it will work or how they'll get there?

- Designing a new product
- Prototyping and testing
- Building tooling, fixtures, dies
- Reworking a process for cycle time or scrap
- Automating a station
- Trialing a different material or supplier spec

What people get wrong

- It only has to be new to you — not new to the world. Catching up to a competitor counts.
- It doesn't have to work. Failed attempts count, and those are usually the expensive ones.
- It mostly isn't scientists. It's your engineers, tooling people and the machinists who built and reworked the prototype — and their wages are the bulk of it.

What's out

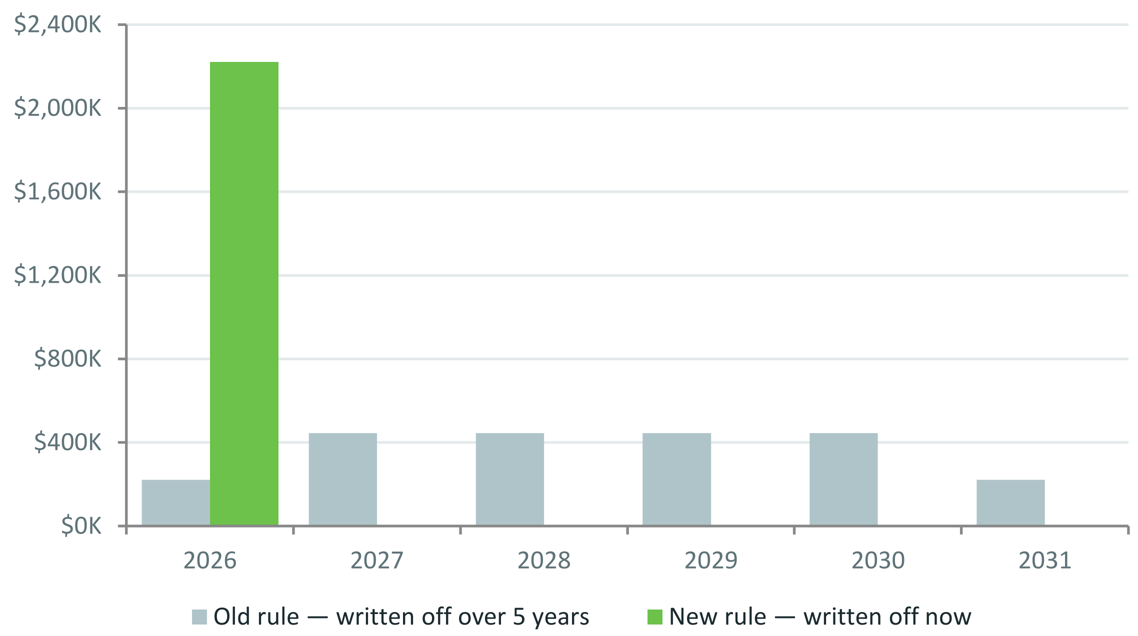
- Routine production once the design is settled
- Quality control on finished goods
- Cosmetic or style changes
- Market research and marketing
- Straight copying of an existing product
- Anything done outside the U.S. — still spread over 15 years

The plain version: if you've ever said “we had to figure that one out on the floor,” that's what we're talking about.

The same spending can produce two separate benefits — a write-off and a credit. The write-off is next; the credit comes later in the deck.

2 R&D Spending: The Old Rule vs. The New Rule

$6 million of U.S. R&D spending in 2026 — and what each rule does to your cash, year by year.



Cash tax saved	Old rule	New rule
2026	$222,000	$2,220,000
2027	$444,000	—
2028	$444,000	—
2029	$444,000	—
2030	$444,000	—
2031	$222,000	—
Total	**$2,220,000**	**$2,220,000**

Put a cost of money on it. At 6%, having the cash now instead of spread through 2031 is worth about $290,000 by itself.

Assumes a 37% owner rate on $6,000,000 of U.S. R&D spending. Research performed outside the U.S. is still written off over 15 years.

Same $2,220,000 either way. The new rule hands you $1,998,000 of it in 2026 instead of dribbling it out through 2031.

3

Equipment Write-Offs: Federal vs. the Southeast

The full first-year write-off is permanent federally. Your state return is a separate question, and the answers differ.

100% First-year write-off on equipment — now permanent

$2.56M Section 179 limit for 2026

$4.09M Section 179 phase-out begins

State	2026	2027	What it means on your state return
Alabama	**Full write-off**	**Full write-off**	Alabama follows the federal rules. No adjustment.
Florida	**Spread over 7 years**	**Not yet set**	Add the write-off back and take it over seven years. Florida's rule covers equipment placed in service through 2026 and it hasn't said what happens after.
Georgia	**No write-off**	**No write-off**	Georgia allows neither the equipment write-off nor the building deduction. Separate Georgia depreciation schedule.
Louisiana	**State write-off**	**State write-off**	Louisiana has its own full write-off you elect. Later federal depreciation gets added back.
Mississippi	**State write-off**	**State write-off**	Mississippi has its own full first-year write-off. You qualify under state rules, not the federal ones.
North Carolina	**15% now**	**15% now**	Take 15% this year. The other 85% comes back to you 20% a year over five years.
South Carolina	**No write-off**	**No write-off**	South Carolina allows neither the equipment write-off nor the building deduction.
Tennessee	**20% write-off**	**No write-off**	Tennessee kept the old step-down schedule for its franchise and excise tax, and the building deduction isn't allowed.

State positions as published as of mid-2026. Several states moved during their sessions — we confirm current guidance before filing.

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4 The New Factory Building Deduction

For the first time, the building itself — not just the equipment inside it — can be written off in year one.

39 years
How long a factory building normally takes to write off

~$513,000
Your annual deduction on a $20M plant under the old rules

$20,000,000
Your deduction in year one under the new rule

What qualifies

- Space used as an integral part of making, growing or refining a physical product
- “Making” means materially changing the form or function of something into a new item — wood pulp to paper, steel rod to bolts
- Farming and chemical production count. So does refining.
- Production floor, plus receiving and storing raw materials
- New construction, and also improvements or additions to a plant you already own
- Several buildings on the same or adjoining land running as one operation can be grouped together

What doesn't

- Office, administrative, sales, parking and lodging space
- R&D and engineering space — yes, even though we just spent a slide on R&D
- Storing finished goods (storing raw materials is fine)
- The land itself
- Packaging, repackaging, labeling or minor assembly on their own — that isn't “making” anything
- Food or drink prepared in the same building where it's sold at retail

Mixed-use buildings: if 95% or more of the square footage qualifies, you can elect to treat the whole building as qualifying. Below that you allocate — square footage, cost segregation data, or the engineering plans.

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5 Writing Off the Building: The Self-Rental Question

Most of you own the plant in one entity and run the business in another. Here is what that means for the deduction.

The window: break ground after January 2025 and before January 2029 · in service after July 2025 and before January 2031

What the law appeared to say

- If you're the landlord, your tenant's manufacturing doesn't count as your manufacturing
- Read on its own, that shuts out every owner who holds the plant in a separate LLC and leases it to the business
- That's how most of the early commentary described it

What the IRS actually said in February

- If the building is owned by a partnership, an S corporation, or an individual, and leased to a business under common ownership, you are not treated as a landlord
- You look straight through to what the operating company does inside the building
- Common ownership means 50% or more of both sides, counting family and related-party ownership, held through the end of the year

Three things that break it

- A C corporation owning the building gets no relief unless it files with the operating company — the owner's entity type decides it
- Common ownership dropping below 50% — a sale, a gift to children outside the business, a buy-sell — and you pay the deduction back as ordinary income
- So does the operating company shutting down production in that building. The exposure runs a full 10 years from the day it goes into service

Statutory rule at §168(n)(2)(A); the common-control exception is in Notice 2026-16, §4.02(3)(c).

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6 Which Accounting Method Do You Have to Use?

Two separate questions: how you report the business overall, and how you report long jobs. The second one catches manufacturers.

The business overall — cash or accrual

- C corporations, and partnerships with a corporate partner, have to use accrual — unless your three-year average sales are $32 million or less ($31 million for 2025)
- At or below that: you can use cash, you don't have to push overhead into inventory, and inventory accounting is simplified
- Above it: accrual, and overhead gets absorbed into inventory
- Carrying inventory by itself no longer forces you onto accrual if you're under the line

Long jobs — the contract rules

A job to build or manufacture something that isn't finished in the year you sign it. The default is percentage of completion — you book profit as the job progresses, paid or not.

Construction jobs — there are ways out

- Small contractors — under $32 million with jobs finishing inside two years
- Homes and, now, apartments and other residential work

Manufacturing jobs — being small doesn't help

- Only counts as a long job if the item is one-of-a-kind — not something you normally stock — or if it normally takes more than 12 months to build
- If either is true, percentage of completion is required no matter your size. The small-company exceptions are written for construction, not manufacturing

Two ways out. An item isn't one-of-a-kind if it normally takes 90 days or less to build, or if the customizing work is 10% or less of what the job costs you. That second one is worth a whole slide — turn the page.

Rules at §448, §460 and Reg. §1.460-2. Changing how you report a job is a formal accounting method change filed with the IRS.

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7 Where the 10% Carve-Out Lives: A Job Schedule

Illustration. A shop with a mix of one-off work and repeat builds — and what the repeat builds are worth on a tax basis.

Job	What it is	Contract	Customizing cost	% of job cost	Normal build	Tax treatment
J-104	One-off process line	$6,200,000	$1,920,000	**40%**	14 months	**Percentage of completion**
J-112	Prototype test rig	$1,400,000	$473,000	**45%**	7 months	**Percentage of completion**
J-130	Custom plant retrofit	$2,300,000	$518,000	**30%**	9 months	**Percentage of completion**
J-118	Model 300 conveyor — repeat build	$3,600,000	$162,000	**6%**	5 months	**Carve-out candidate**
J-121	Model 300 conveyor — repeat build	$4,100,000	$123,000	**4%**	5 months	**Carve-out candidate**
J-126	Model 150 skid — catalog with options	$2,900,000	$174,000	**8%**	4 months	**Carve-out candidate**

What the carve-out is worth this year

Contract value of the three repeat jobs	$10,600,000
Gross profit inside those jobs	$2,650,000
Average completion at December 31	70%
Profit percentage of completion would pull in	**$1,855,000**
Tax deferred at 37%	**$686,000**

What it takes to get there

- Job cost detail that separates engineering and customizing from the build — most shops capture it, just not broken out this way
- The item also has to normally build in 12 months or less; the two tests are independent
- It's a formal method change with the IRS, not a year-end election
- A deferral, not forgiveness — but it repeats, and grows with the backlog

Illustration only, using hypothetical jobs. The 10% test and the 90-day test are in Reg. §1.460-2(b)(2).

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8 The $80 Million Misconception

I hear this one in almost every manufacturing meeting. It's the wrong provision.

WHAT PEOPLE HEARD

“The new law raised the small-business sales threshold to $80 million for manufacturers — so we’re off accrual and out of the inventory overhead rules.”

That was in the House version of the bill. It was dropped before the law was signed. It is not law.

WHAT THE LAW ACTUALLY SAYS

- Manufacturers are on the same inflation-adjusted threshold as everyone else: $31 million for 2025, $32 million for 2026
- The relief that did pass is for construction contractors, not manufacturers
- It widened the old exception from single homes to residential work generally — apartments, condos, senior living, student housing
- 80% of the estimated cost has to be residential, and the bigger projects add a three-year completion test

Bottom line: If someone tells you they’re “at $80 million now,” they’re reading a contractor rule — or a bill that never became one.

9 Credits Worth a Second Look

Two are permanent, one is on a clock, one is in limbo, and one just got harder to claim.

R&D credit

Process improvement, tooling, automation and scrap reduction all count. Most manufacturers under-claim it because they picture lab coats instead of the plant floor.

Clean energy components

If you make clean-energy parts or critical minerals, the sourcing rules tightened this year and the test is now annual — parts that qualified in 2025 can drop out in 2026.

Energy-efficient buildings

Up to $5.00 a square foot, more with prevailing wage. It ends for projects breaking ground after June 30, 2026 — that date has passed, so it's about proving out work already underway.

Hiring credit (WOTC)

Expired for employees starting after 12/31/2025 and not yet renewed. Keep screening and filing the 28-day paperwork anyway — every prior lapse was restored retroactively.

Paid family & medical leave

Now permanent and expanded. A credit for wages paid during qualifying leave. Under-used by manufacturers who already offer the benefit and never claimed it.

State & local

Alabama Jobs Act and the equivalents in Georgia, Tennessee and Mississippi, state R&D credits, and sales tax exemptions on manufacturing machinery. On an expansion, often bigger than the federal item.

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Before Year-End

Five things to put on someone's calendar this quarter

1. Run the R&D cash numbers on your own spending. It's a cash flow question, not a deduction question.
2. Get a state-by-state picture if you file in more than one southeastern state. Federal and state are splitting.
3. Planning a building? Run the write-off and your ownership succession plan together, not separately.
4. Bring us your job cost schedule. The 10% carve-out is found in the data you already have.
5. Keep the hiring-credit screening and 28-day paperwork going through the lapse.

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Steven Nobles
Senior Manager
snobles@bmss.com
Mobile, Alabama

Questions

General information presented as of September 2026. Not advice for any specific taxpayer.

Questions?

Brad Calloway
SVP, Commercial Banking
PNC Bank
brad.calloway@pnc.com

Grant Reese
Attorney
Burr & Forman
greese@burr.com

Steven Nobles
Senior Manager
BMSS Advisors & CPAs
snobles@bmss.com

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