

Section 174—Research and Development Exemption



Description

Domestic research expenditures can once again be fully expensed starting in 2025 as part of the One Big Beautiful Bill Act (OBBBA), giving U.S. businesses much-needed relief. For companies that capitalized research and development (R&D) under the old Section 174 rules in 2022–2024, there may be an opportunity to retroactively claim those deductions.

The OBBBA restores the ability to fully deduct domestic R&D costs in the year they are incurred. Under the new Section 174A, taxpayers are no longer required to amortize these costs over five years. This reinstates the traditional treatment that was in place for decades before the Tax Cuts and Jobs Act (TCJA) changes took effect in 2017.

Key Highlights

- Full expensing applies to domestic research and experimental (R&E) expenditures.
- Foreign R&E must still be amortized over 15 years.
- Small businesses meeting the gross receipts test under IRC Section 448(c) may retroactively adopt full expensing for 2022–2024, creating opportunities for potential refund claims by filing amended returns.
- Starting in 2025, businesses can elect to fully expense R&D costs entirely in 2025 or spread them over two years (2025 and 2026) to optimize cash flow.

What This Means for 2022–2024 Tax Years

If a company capitalized and amortized R&D costs in 2022, 2023 or 2024 there may be an opportunity to revisit those years. The law allows eligible small businesses to retroactively adopt full expensing for domestic R&D costs,

potentially unlocking significant deductions.

The change creates opportunities for businesses to put cash back in their pockets through amended returns and accounting-method changes.

Impact on Massachusetts

In general, the Massachusetts Department of Revenue (DOR) usually conforms to the Internal Revenue Code for corporate tax purposes and for individuals—the conformity date was updated earlier this year from January 1, 2022, to January 1, 2024. Since the changes to Section 174 were to the Internal Revenue Code (as it established section 174A), the Massachusetts DOR should pick up these changes and conform to the Internal Revenue Code.

However, as most small businesses in Massachusetts are set up as S-Corps, which fall under Section 62 of the Massachusetts General Laws, the conformity date for them will be pre-passage of the federal tax bill. Because of this, there is no set date for when Massachusetts will bring the federal changes in line with Massachusetts tax law and it is likely that the Commonwealth will have to take action to change this.

For more information

Contact MassCPAs Government Affairs Manager
Liam Cahill at lcahill@masscpas.org with
any questions and to learn about next steps.

