



Section 174A Is Back

What the Restoration of Immediate R&E Expensing
Means for Your Business

A comprehensive guide to the One Big Beautiful Bill Act's
restoration of immediate R&E deduction

For three years, businesses across the United States have grappled with an unwelcome tax burden. The Tax Cuts and Jobs Act of 2017 forced companies to capitalize and amortize their domestic research and experimental expenditures over five years—a dramatic departure from decades of immediate expensing that had fueled American innovation. That era is over.

The One Big Beautiful Bill Act has permanently restored immediate deduction of domestic R&E expenditures under new Section 174A, effective for tax years beginning after December 31, 2024. For R&E-intensive businesses, this isn't just a policy change—it's a significant cash-flow event that demands immediate attention.

Understanding the Shift: From Forced Capitalization to Immediate Deduction

Between 2022 and 2024, the TCJA's capitalization requirement created a punishing reality for innovative companies. Domestic R&E costs had to be amortized over five years. Foreign R&E stretched even longer—fifteen years. For businesses investing heavily in research, engineering, and software development, this meant paying taxes on income that had already been spent on innovation.

Recently enacted OBBBA updates to Section 174A change the equation entirely. Domestic R&E costs incurred in 2025 and beyond can be deducted immediately in the year paid or incurred. No capitalization required. No waiting five years to recover your investment. Foreign R&E remains subject to fifteen-year amortization, but domestic research activities now receive the favorable treatment that drove innovation investment for decades before the TCJA disrupted standard practice.

Who Qualifies for Section 174A Benefits

The straightforward answer: every business with domestic R&E expenditures. There are no phase-outs, no size restrictions for forward-year expensing, and no industry limitations. Whether you're a multinational corporation or a growing technology company, Section 174A applies to your domestic research costs.

The more nuanced opportunity exists for small businesses meeting the IRC §448(c) gross receipts test—approximately \$30 million threshold. These businesses qualify for retroactive expensing, meaning they can amend 2022, 2023, and 2024 returns to claim refunds on R&E costs that were capitalized under the TCJA regime. The election deadline is July 4, 2026, and the potential refunds can be substantial.

Two Paths Forward: Immediate Expensing vs. Elective Capitalization

Section 174A provides flexibility that smart tax planning can exploit. The default treatment allows immediate deduction of all domestic R&E in the year paid or incurred—full deduction in Year 1, no capitalization required. This approach maximizes near-term cash flow and works particularly well for companies with uneven R&E spending patterns.

However, businesses can elect to capitalize and amortize R&E over sixty months or longer under Section 174A(c). This election is irrevocable once made and applies to that year forward, but it offers strategic advantages for companies managing alternative minimum tax exposure, adjusted taxable income limitations under Section 163(j), or loss carryback planning scenarios.

The decision between immediate expensing and elective capitalization shouldn't be made in isolation. It requires modeling against your specific tax profile, income projections, and coordination with other tax attributes.

What Costs Qualify as Domestic R&E

The scope of qualifying expenditures is broader than many businesses realize. Included costs encompass wages paid to R&E employees—engineers, scientists, and software developers—as well as supplies and materials consumed in research activities. Contractor payments qualify at 100% of the total contract amount. Laboratory equipment and facilities costs are included, though subject to standard capitalization rules for the underlying assets.

Software development costs, engineering expenses, biotech research, and manufacturing process improvements all fall within the Section 174A framework. The key determination is whether the activity constitutes research or experimentation intended to discover information that eliminates uncertainty about the development or improvement of a product, process, or formula.

Costs that don't qualify include foreign research expenditures, which remain subject to fifteen-year amortization. Costs already capitalized as part of depreciable property, survey or feasibility studies, and routine quality control testing on existing products also fall outside Section 174A treatment.

Transition Relief: Recovering Your 2022–2024 Capitalized Domestic R&E Costs

Businesses that capitalized domestic R&E under the TCJA have three options for their unamortized balances. The most aggressive approach claims the full unamortized balance as a deduction on the 2025 return. This accelerates remaining deductions into a single year, maximizing immediate tax benefit.

A more measured approach spreads the recovery over two years—fifty percent in 2025 and fifty percent in 2026. This may be preferable for businesses managing income fluctuations or rate arbitrage considerations.

The third option continues the original five-year TCJA amortization schedule. While available, this approach rarely makes sense given the time value of money and opportunity cost of delayed deductions.

Critical Deadlines and Next Steps

The calendar creates urgency. The small-business retroactive election deadline falls on July 4, 2026. Business tax returns with extensions are due September 15, 2026.

Companies should act now to identify all R&E activities and associated costs across wages, supplies, contractor payments, and equipment. Reconciling general ledger data, payroll records, and project tracking systems quantifies the domestic versus foreign R&E split that determines treatment under Section 174A.

For businesses with 2022–2024 capitalized balances, modeling the three transition options reveals the optimal recovery strategy.

The Bottom Line

Section 174A represents a meaningful return to tax policy that rewards domestic research investment. The immediate cash-flow benefit of 2025 expensing, combined with transition relief for prior-year capitalized costs, creates a planning opportunity that R&E-intensive businesses cannot afford to ignore.

The complexity lies in optimizing across multiple dimensions: immediate versus elective capitalization, transition relief options, and timing considerations. The businesses that capture full value from Section 174A will be those that model comprehensively, elect strategically, and document thoroughly for audit defense.

The research expensing landscape has fundamentally changed. The question is no longer whether to capitalize, but how to maximize the benefit of restored immediate deduction.

**Ready to optimize your Section 174A strategy?
Contact Exactera's R&E Tax Credit specialists today.**

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