

Overview of Research and Experimental Expenditures: Section 174

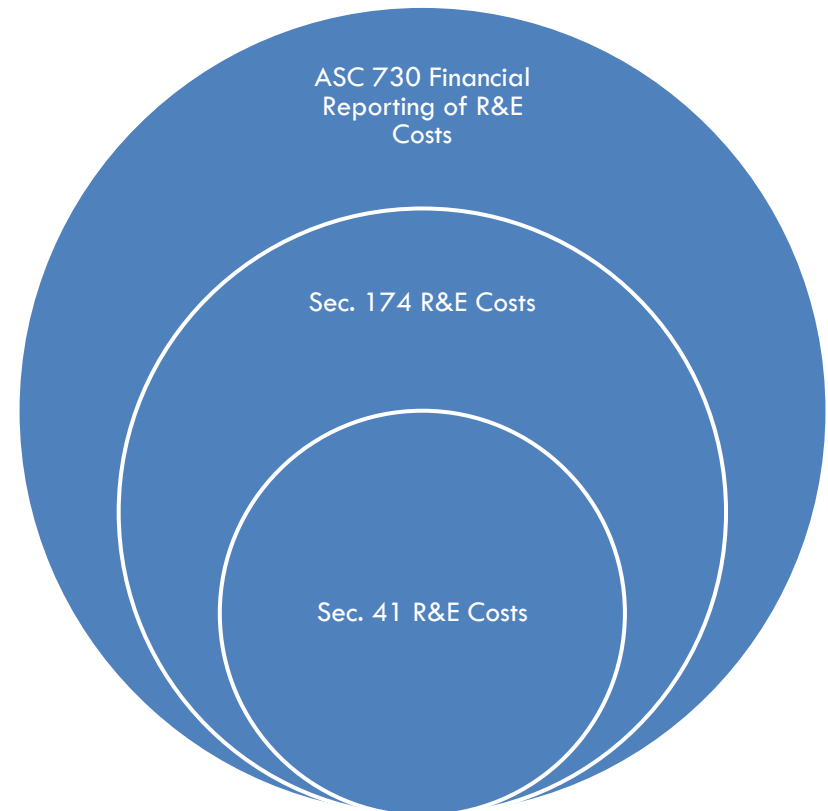


**Prepared by the Staff of the Joint Committee on Taxation
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Different Definitions of Research and Experimental (“R&E”) Costs

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- Financial reporting
 - Discovery of new knowledge and translation of research findings into a plan or design
- Sec. 174 costs
 - Eliminate uncertainty
- Sec. 41 R&E costs
 - Subset of Sec. 174 R&E costs
 - Must relate to new or improved business component
 - Technological in nature
 - Eliminate uncertainty
 - Process of experimentation
 - Conducted within the U.S., Puerto Rico, or any possession of the U.S.



What are Sec. 174 R&E Costs?

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- Sec. 174 R&E costs must:
 - Be paid or incurred in a trade or business
 - Represent a R&E cost in the experimental or laboratory sense
 - Must be incurred to discover information that **eliminates uncertainty** concerning product development or improvement
 - Uncertainty exists if the information available to the taxpayer does not establish either:
 - The capability or method for developing or improving the product, or
 - The appropriate design of the product

Types of Sec. 174 R&E Costs

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- Sec. 174 R&E expenditures include all costs incident to product development or improvement
 - Wages
 - Fringe benefits
 - Indirect costs
 - Overhead (rent, depreciation, utilities, etc.)
 - Mixed service costs (human resources, payroll, legal, IT, etc.)
 - Contract research

Recovery of Sec. 174 R&E Costs

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	Tax Years Beginning Before January 1, 2022	Tax Years Beginning After December 31, 2021
Domestic R&E expenditures	<ul style="list-style-type: none"> <input type="checkbox"/> Deduct, <input type="checkbox"/> Capitalize and amortize over 5 years, or <input type="checkbox"/> Capitalize and amortize over 10 years 	<ul style="list-style-type: none"> <input type="checkbox"/> Capitalize and amortize over 5 years (half-year convention)
Foreign R&E expenditures	<ul style="list-style-type: none"> <input type="checkbox"/> Same as domestic treatment 	<ul style="list-style-type: none"> <input type="checkbox"/> Capitalize and amortize over 15 years (half-year convention)
Software development	<ul style="list-style-type: none"> <input type="checkbox"/> Deduct, <input type="checkbox"/> Capitalize and amortize over 3 years, or <input type="checkbox"/> Capitalize and amortize over 5 years 	<ul style="list-style-type: none"> <input type="checkbox"/> Domestic: Capitalize and amortize over 5 years (half-year convention) <input type="checkbox"/> Foreign: Capitalize and amortize over 15 years (half-year convention)
Deduction of unamortized amount if related property or project disposed of, retired or abandoned	<ul style="list-style-type: none"> <input type="checkbox"/> Yes 	<ul style="list-style-type: none"> <input type="checkbox"/> No (must continue amortizing)

Revenue Estimate to Permanently Extend R&E Expensing

[Millions of Dollars]

Provision	Effective	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2023-28	2023-33
1. Section 174 expensing made permanent.....	epoia 12/31/21	-72,806	-36,020	-29,615	-22,857	-18,084	-16,717	-16,511	-16,294	-16,106	-15,933	-15,751	-196,098	-276,693

Note: Assumes date of enactment of July 1, 2023

Additional Resources

- ❑ Joint Committee on Taxation, *General Explanation of Public Law 115-97* ([JCS-1-18](#)), December 2018, pages 142-145
- ❑ Joint Committee on Taxation, *Tax Incentives for Domestic Manufacturing* ([JCX-15-21](#)), March 2021, pages 18-21
- ❑ [Rev. Proc. 2023-28](#), 2023-3 I.R.B. 407 (automatic accounting method procedures to comply with section 174, as modified by Pub. L. No. 115-97)
- ❑ [Rev. Rul. 2023-8](#), 2023-18 I.R.B. 833 (obsoleting Rev. Rul. 58-74, 1958-1 C.B. 148 (which previously allowed amended returns to be filed to change the treatment of R&E costs))