

EXPENSING FOR RESEARCH AND DEVELOPMENT

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**ADVANCING AMERICAN
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TOPLINE: The One Big Beautiful Bill (OB3) brings back full and immediate expensing of businesses' research and development (R&D) expenditures to ensure the tax code doesn't penalize innovation.

BACKGROUND: The 2017 Tax Cuts and Jobs Act ([TCJA](#)) got most things right, but amortization of R&D was one mistake. Prior to TCJA, businesses could fully and immediately deduct all R&D expenses in the same tax year as the costs were incurred. But to secure more favorable government revenue estimates and avoid running afoul of the Senate's budget reconciliation rules, Congress included in TCJA a scheduled change that would require companies to amortize R&D over five years beginning with tax year 2022. Amortization followed a straight-line method, such that 20% of the cost could be deducted per year (though because of the midpoint convention, only 10% of the cost was deductible in the first tax year and the final 10% wasn't deductible until year six). R&D conducted outside the U.S. faced *15-year* amortization.

Lawmakers in 2017 likely didn't intend for R&D amortization to ever take effect. The general expectation was that Congress would fix or defer the R&D provision before it took effect. Unfortunately, Congress failed to act before R&D amortization took effect in 2022. It was still the law of the land until OB3 was enacted.

What OB3 Did:

- Permanently [returned](#) to allowing full and immediate expensing for R&D conducted in the U.S.
- [Made](#) the change fully retroactive to when R&D amortization took effect in 2022.
- Left in place 15-year amortization for R&D conducted outside the U.S.

Why It Matters?

- Full and immediate expensing for R&D is a [\\$141 billion](#) pro-growth business tax cut over 10 years, according to JCT estimates.
- Ending amortization of R&D especially helps startups and smaller businesses that struggle more with cash flow issues than large businesses who have easier access to capital.

Where Can I Find the Changes? OB3 Section [70302](#); [26 U.S.C. § 174A](#).

BOTTOMLINE: America has the world's greatest innovation economy. OB3 reversed a bad R&D tax policy before it had time to do too much damage to American dynamism. The 15-year amortization of R&D conducted outside the U.S. should also be replaced with full expensing.

