

# What is SECTION 174?

MAKE AN **IMPACT**

Are you currently taking or considering the §41 research and development (R&D) tax credit? Are you aware of changes introduced by the Tax Cuts and Jobs Act of 2017 (TCJA) and the amendments to Section §174?

## HISTORICAL BACKGROUND

The United States promotes innovation and encourages businesses to invest in research and experimentation activities and offers significant tax incentives for performing these activities.

Historically, companies investing in R&D can either deduct their research expenses or claim the R&D tax credit under these two tax code sections:

- U.S. Code § 174 - Amortization of Research and Experimental Expenditures: Allowed companies to choose to immediately deduct the full value of their R&D investments or allowed an amortization deduction of such expenditures over a 5-year period.
- § 41 Credit for Increasing Research Activities: Allows taxpayers with R&D expenditures to claim a dollar-for-dollar tax credit to offset tax liability.

## HOW DOES §174 RELATE TO §41?

Basically, all §41 Expenditures are §174 Expenditures, but §174 generally includes all costs "incidental to the development or improvement."

Expense	174	41
Wages	Yes	Yes
Non-Taxable Benefits	Yes	No
Outsourced Expenses	Yes @ 100%	Yes @ 65%
Supply Costs	Yes	Yes
Depreciation	Yes	No
Overhead	Yes	No
G&A	Yes	No
Utilities	Yes	No
Indirect Expense Allocation	Yes	No
Rent	Yes	No
Securing a Patent Costs	Yes	No
Acquiring a Patent	No	No

## WHAT IS THE PROBLEM?

With changes made in The Tax Cuts and Jobs Act of 2017 (TCJA), starting in 2022, the U.S. tax code under §174, states that no deduction shall be allowed for such expenditures and taxpayers must capitalize and amortize deduction expenditures over a 5-year period.

## WHAT DOES THIS MEAN TO THE TAXPAYER WHO HAS R&D ACTIVITIES?

Forcing companies to amortize R&D investments over five years rather than deducting them in the same year in which the costs are incurred will cause taxable income to be increased by 90% of research and experimentation expenditures in the first year.

With First Year Expensing		With Required Amortization	
Net Income =	\$2,500,000	Net Income =	\$2,500,000
§174 Expenses =	(\$1,000,000)	§174 Expenses =	\$1,000,000
Taxable Income =	\$1,500,000	1st Year Amortization =	(\$100,000)
Tax (@21%) =	\$315,000	Taxable Income =	\$2,400,000
		Tax (@21%) =	\$504,000



## HOW YOU CAN HELP



Take action NOW by telling Congress to SUPPORT The American Innovation & Jobs Act of 2023 (S.866), a bipartisan bill which would restore the immediate deductibility of R&D expenses. Go to <https://tecna.org/action-center> to send an email to Congress with ONE CLICK.

174 Appeal | 4.23

## NEED MORE INFO?



PHONE  
800.624.1076

WEB  
[www.tri-merit.com](http://www.tri-merit.com)

EMAIL  
[info@tri-merit.com](mailto:info@tri-merit.com)



PHONE  
1.412.545.3493

WEB  
[www.tecna.org](http://www.tecna.org)

EMAIL  
[Lries@tecna.org](mailto:Lries@tecna.org)