epsa USA

SECTION 174

Regulation in the Internal Revenue Code

info-usa@epsa.com • +1 (215) 709 3245 • www.us.epsa.com

WHAT IS **SECTION 174**?

Maximizing Savings on Research and Experimental Expenditures through Section 174
Under Section 174, businesses have the opportunity to deduct eligible Specified Research and Experimental (SRE) expenses from their taxable income. Until January 1, 2022, companies can opt for the year in which the expenses were incurred, or capitalize and amortize them over a minimum of 60 months.

WHAT HAS CHANGED ABOUT SECTION 174 AND WHY DOES IT MATTER?

New Tax Law Could Discourage R&D Investment
Starting January 1, 2022, tax law § 174 will be more stringent, requiring companies to explicitly identify SRE expenditures and amortize them over time. As a result, this could raise companies' taxable income and discourage investment in R&D.

- **Ability to immediately deduct costs is eliminated.**
- **§ 59(e) election and special treatment for software development are both eliminated.**
- **All § 174 costs, including software development, must be capitalized and amortized over 5 years (15 years for foreign research costs)**
- **The mid-year convention only allows half a year of amortization in the first and final years.**

As per the new regulations, taxpayers must now distinguish all §174 costs from other categories. It's worth noting that even similar costs that were previously eligible for multiple tax treatments are now subject to this differentiation.

WHO IS AFFECTED BY THESE CHANGES?

Pharma & Biotech
Healthcare and Medical Devices
Chemical and Materials Science

Energy and Renewable Energy
Environmental and Sustainability

Financial Services
Telecommunications
Food and Agriculture
Government and Defense Research Agencies

Software & Technology
Education and EdTech
Consumer Electronics

Construction and Engineering
Transportation and Logistics
Automotive

R&D DEDUCTION (§ 174) VS R&D TAX CREDIT (§ 41)

A tax deduction **reduces your taxable income**, which, in turn, **lowers the amount of income subject to taxation.**

A tax credit is a **direct reduction in the amount of taxes you owe.** It reduces your tax liability **dollar for dollar.**

Section 174 relates to the amortization and deduction of R&D expenses, while Section 41 deals with R&D tax credits. Though both sections involve R&D expenses, they have different functions and work separately.

HOW CAN EPSA USA HELP?

Our team of R&D tax credit experts can help **identify and document** qualifying research and development activities for tax credits. **We have knowledge of § 174 of the Internal Revenue Code.**

GET IN TOUCH WITH OUR TEAM TODAY!