SECTION 174 BIG BEAUTIFUL BILL PLANNING

CTA
Solutions to Fund Your Future

In light of recent legislative developments and IRS guidance, taxpayers must reevaluate their treatment of Section 174 research and experimental (R&E) expenditures. This chart outlines possible compliance scenarios under Section 174, segmented by taxpayer size, and provides options and outcomes based on the taxpayer's actions to date. Whether your client fully complied, delayed implementation, or did not claim R&D credits at all, this reference is designed to guide decision-making on potential amendments, refund opportunities, and forward-looking compliance strategies.

Small vs. Large Business Taxpayers:

Per IRC §448(c), a small business taxpayer has average annual gross receipts (AGR) of $31 million or less over the prior three tax years. AGR is calculated by totaling gross receipts from all sources for the past three years and dividing by three. Taxpayers above this threshold are considered large businesses for Section 174 compliance purposes. For example, the determination in 2025 will be the gross receipts of 2023, 2024, & 2025 divided by 3

Small-Business Taxpayers (3yr AGR, less than or equal to 31 million

174 Compliance Status Scenario	Implications & Options	Solutions/Outcome
Fully Complied with 174 and Claimed Credit under 41	Taxpayer may choose to go back and amend tax returns and fully expense capitalized 174 amounts in those specific tax years, or taxpayer may expense previously capitalized costs in 2025 or ratably over 2025 & 2026. Taxpayer will be allowed to fully expense 174 from tax year 2025 permanently.	Taxpayer should analyze previous years tax returns and rates and calculate best refund methodology based on estimated 2025 & 2026 income. For example, if the taxpayer had higher effective tax rates in 2022, 2023, and 2024 then the estimated tax rate in 2025 (or 2025 & 2026), taxpayer would likely be better off amending prior year tax returns. It is most likely that the small business taxpayer, due to flow through elements, will benefit most from amending the tax returns. There are some times where logistics due to the number of shareholders and other reasons may make this option less desirable, however it is likely to mean the highest level of ROI with the retroactive fix. Taxpayers that choose to amend their returns will likely have to file a 3115 or some other type of automatic method change with their filings. Taxpayers that choose to expense in 2025 & 2026 will also likely have to file an automatic change in method with their filings. Taxpayer should examine past filings to ensure that they have properly claimed all credit relating to R&D expenses, as pressure to conform to 174 may have led to conservative categorization of expenses. If more conservative categorization occured, taxpayer will have until the refund statue runs out (3 years from filing) to amend and claim the additional credit.
Delayed or Disregarded Implementation of 174, Claimed Credit under 41	Taxpayer has filed in accordance with new retroactive law and would not necessarily be subject to adjustment with the IRS. Taxpayer may continue to expense 174 costs in ongoing tax years permanently.	As these filings would be in accordance with current regulations, there may not be any amended filings necessary. Taxpayer should wait and see if guidance is issued by the Treasury which will force an amended return to appropriately report their conformance with the retroactive legislation. Taxpayer should examine past filings to ensure that they have properly claimed all credit relating to R&D expenses, as pressure to conform to 174 may have led to conservative categorization of expenses. If more conservative categorization occured, taxpayer will have until the refund statue runs out (3 years from filing) to amend and claim the additional credit.
Delayed or Disregarded Implementation of 174, Did NOT Claim Credit under 41	Taxpayer has filed in accordance with new retroactive law and would not necessarily be subject to adjustment with the IRS. However, taxpayer has likely left substantial and claimable refund credits on the table. Taxpayer may continue to expense 174 costs in ongoing tax years permanently.	As these filings would be in accordance with current regulations, there may not be any amended filings necessary. Taxpayer should wait and see if guidance is issued by the Treasury which will force an amended return to appropriately report their conformance with the retroactive legislation. Taxpayer has the opportunity to go back and appropriately categorize R&D expenses to be able to fully claim the credit without worrying about section 174 capitalization. Taxpayers will have 3 years from original filing of the returns to claim the credit and are likely eligible for a substantial and immediate refund for the prior 3 tax return years.

Large Business Taxpayers (3yr AGR >31 Million)

174 Compliance Status Scenario	Implications & Options	Solutions/Outcome
Fully Complied with 174 and Claimed Credit under 41	Taxpayer may expense previously capitalized 174 expenses in 2025 or ratably over 2025 & 2026. Taxpayer may continue to expense 174 costs in ongoing tax years permanently.	Taxpayers that choose to expense previously capitalized 174 assets in 2025 or elect to ratably expense over 2025 & 2026 will likely have to file an automatic change in method with their filings. Taxpayers that choose to just expense from 2025 onwards will likewise have to include a change in method. Taxpayer should examine past filings to ensure that they have properly claimed all credit relating to R&D expenses, as pressure to conform to 174 may have led to conservative categorization of expenses. If more conservative categorization occured, taxpayer will have until the refund statue runs out (3 years from filing) to amend and claim the additional credit. While this may lead to amending prior year tax returns to claim higher 174 capitalization amounts, refunds issued from amended returns and subsequent expensing in 2025 are likely to be in the taxpayer's benefit. In addition, since this legislation essentially makes permanent 174 compliance for tax years 2022-2024 proper reflection of and categorizations of 174 capitalized amounts may be analyzed and adjusted by the IRS and taxpayers who mistate these amounts would be subject to possible penalites in addition to increased tax for those years.
Delayed or Disregarded Implementation of 174, Claimed Credit under 41	Taxpayer must amend their previous year tax returns to appropriately reflect 174 for previous tax years or will be in non-compliance and subject to penalties, in addition to owed tax for those time periods. Taxpayers that amend their tax returns will be allowed to expense all capitalized amounts in 2025 or ratably over 2025 & 2026. Taxpayer may continue to expense 174 costs in ongoing tax years permanently beginning in 2025.	Taxpayers must amend previous tax years or will demonstrate that they were not appropriately following the now permanent section 174 compliance from 2022-2024, and will be subject to penalties and interest on top of owed taxes for that time period. Taxpayer should also examine past filings to ensure that they have properly claimed all credit relating to R&D expenses, as pressure to conform to 174 may have led to conservative categorization of expenses. If more conservative categorization occured, taxpayer will have until the refund statue runs out (3 years from filing) to amend and claim the additional credit. While this may lead to amending prior year tax returns to claim higher 174 capitalization amounts, refunds issued from amended returns and subsequent expensing in 2025 are likely to be in the taxpayer's benefit. Taxpayer will likely file a change in method (3115) with their 2025 filings and expense all amended tax return 174 capitalization in that tax year (or ratably over 2025 & 2026, if elected) and will be able to expense 174 expenses permanently from 2025 onward.
Delayed or Disregarded Implementation of 174, Did NOT Claim Credit under 41	Taxpayer must amend their previous year tax returns to appropriately reflect 174 for previous tax years or will be in non-compliance and subject to penalties, in addition to owed tax for those time periods. Taxpayers that amend their tax returns will be allowed to expense all capitalized amounts in 2025 or ratably over 2025 & 2026. Taxpayer may continue to expense 174 costs in ongoing tax years permanently beginning in 2025.	Taxpayers must amend previous tax years or will demonstrate that they were not appropriately following the now permanent section 174 compliance from 2022-2024, and will be subject to penalties and interest on top of owed taxes for that time period. Taxpayer should also examine past filings to ensure that they have properly claimed all credit relating to R&D expenses, as pressure to conform to 174 may have led to conservative categorization of expenses. If more conservative categorization occured (or none, in this case), taxpayer will have until the refund statue runs out (3 years from filing) to amend and claim the additional credit. While this may lead to amending prior year tax returns to claim higher 174 capitalization amounts, refunds issued from amended returns and subsequent expensing in 2025 are likely to be in the taxpayer's benefit. Taxpayer will likely file a change in method (3115) with their 2025 filings and expense all amended tax return 174 capitalization in that tax year (or ratably over 2025 & 2026, if elected) and will be able to expense 174 expenses permanently from 2025 onward.