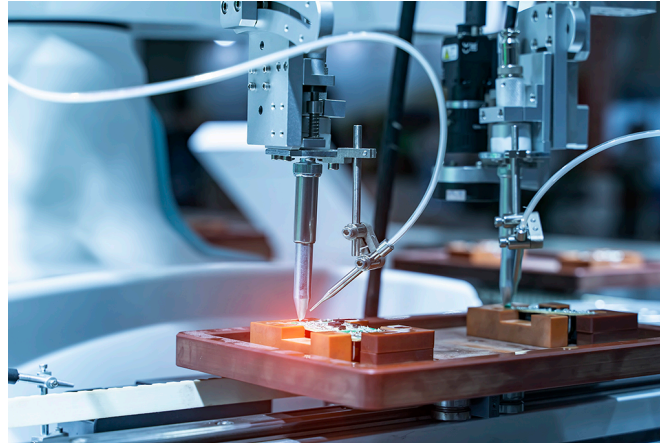


# RESEARCH & DEVELOPMENT ACCOUNTING METHOD CHANGES (SECTION 174)



Under the 2017 [Tax Cuts and Jobs Act](#) (TCJA), the tax treatment of research and development (R&D) expenses have changed. These costs, also known as research and experimentation (R&E) costs, impact all taxpayers that have R&D expenses, not only those that qualify for the R&D credit.

Previously taxpayers were able to deduct these expenditures in the year they were incurred. Beginning in tax year 2022, taxpayers lose the option to deduct R&D costs in the year they are incurred and will be required to amortize these expenditures over a five-year period (15 years for foreign expenditures) with amortization beginning at the mid-point of the year incurred. These changes constitute a change in accounting method.

## What are R&D expenditures?

R&D expenditures are defined as expenditures incurred in connection with the taxpayer's trade or business which represent research and development costs in the experimental or laboratory sense. The expenses may relate either to a general research program or a particular project.

Examples Include Exclusions Exclude

- Costs related to the development or improvement of a product
- Costs related to obtaining patents, including any legal fees
- Salaries of research staff
- Supplies consumed during research
- Utilities related to the research area
- Patent costs
- Software development costs
  - Ordinary testing/inspection
  - Efficiency surveys
  - Management studies
  - Consumer surveys
  - Advertising/promotions
  - Acquired intangibles such as patents, models, processes

## **Simplified method of accounting change**

The IRS has released two Revenue Procedures [2023-8](#) and [2023-11](#), providing guidance and some relief on the requirements for reporting the change in accounting method. The change will be reported on a cut-off basis, which means that it will only affect R&D costs incurred in 2022 and future years. The change can be reported by filing a statement attached to the taxpayer's original federal income tax return for the first tax year in which the TCJA's IRC §174 changes become effective instead of filing [Form 3115](#), Application for Change in Accounting Method. This provides a simplified way to change an accounting method.