S174 Updates in the Big Beautiful Bill: What Business Owners Need to Know

Key Takeaways

- Immediate expensing is restored for U.S.-based research & experimental (R&E;) costs starting 2025.
- Foreign R&E; remains subject to 15-year amortization.
- Simpler compliance for domestic R&E;: no more 5-year amortization.
- Applies beyond tech: manufacturing, construction, food, and software companies all benefit.
- Cash flow boost: more capital available to reinvest in growth and innovation.

What Changed Under S174 Before

Until recently, businesses could immediately expense R&E; costs in the year they were incurred. This gave companies flexibility to invest in innovation without carrying long-term tax burdens. But starting in 2022, rules shifted: – Companies were required to capitalize and amortize R&E; expenses over 5 years (for U.S.-based work) or 15 years (for foreign-based work). – This meant higher taxable income in the short term, reduced cash flow, and a chilling effect on startups and innovators.

The Big Beautiful Bill's Fix

The OBBBA makes crucial updates to S174 starting in 2025:

- Immediate expensing is restored for U.S.-based R&E; expenses. Businesses will once again be able to deduct these costs in the year they occur.
- Foreign R&E; remains subject to 15-year amortization under Section 174.
- Simplified compliance for domestic R&E; – no more 5-year amortization schedules.
- Stronger encouragement for U.S.-based innovation, with tax savings tied to keeping R&E; at home.

Why It Matters for Small & Mid-Sized Businesses

Many business owners assume 'research & experimentation' only applies to tech giants or pharma companies. In reality, S174 applies to any business developing or improving products, processes, or software—including: – Manufacturers improving production methods – Construction firms testing new materials – Software developers building custom applications – Food & beverage companies refining recipes With immediate expensing restored for domestic R&E;, these businesses gain: – Stronger cash flow → Less tax drag means more capital to reinvest. – Simpler planning → No more 5-year amortization headaches. – Growth opportunities → Encourages innovation without fear of tax penalties.

What CFOs & Business Owners Should Do Now

1. Review domestic vs. foreign R&E; activity – only U.S.-based costs qualify for immediate expensing. 2. Revisit past years – work with your tax advisor to see if amended returns or carryforward strategies make sense. 3. Plan ahead for 2025 – align budgets and forecasts to take full advantage of immediate expensing. 4. Coordinate with R&D; credits – pair S174 deductions with R&D; tax credits for maximum benefit.

Final Word

The S174 update in the Big Beautiful Bill is more than a technical fix—it’s a lifeline for innovation. By restoring immediate expensing for domestic R&E; while retaining the 15-year amortization for foreign R&E;, it gives U.S. companies the freedom to invest in new ideas without unnecessary tax burdens.