

Reproduced with permission from Tax Management Memorandum. Copyright © 2025 by Bloomberg Industry Group, Inc. (800-372-1033)
<http://www.bloombergingustry.com>

September 8, 2025

New R&E Expensing Procedures Are Complex With Favorable Options

Kate Abdoo, Natalie Tucker, Carol Conjura, Colleen O'Connor, Liam Craig*
KPMG US

The [One Big, Beautiful Bill Act](#) changes the federal income tax treatment of domestic research and experimental (R&E) costs to go back to current expensing from mandatory capitalization and amortization over five years and also reinstates some version of the options available prior to the [Tax Cuts and Jobs Act](#). Notably, domestic R&E costs incurred in tax years beginning after 2024 may be immediately deducted or, at the taxpayer's election capitalized and amortized either (i) over a period of at least 60 months under new §174A(c), or (ii) over ten years under §59(e). This flexibility allows research-intensive businesses to optimize their overall tax positions while also encouraging investment in domestic over foreign research, which remains subject to mandatory capitalization and 15-year amortization.

The OBBBA also provides several options for transitioning to the new rules for domestic R&E costs, including elective retroactive application of §174A for eligible small businesses and accelerated recovery of previously capitalized costs (beginning in 2025) for all taxpayers. The OBBBA includes the general framework for these transition rules; however, Congress delegated the issuance of specific procedures taxpayers must follow under each transition option to Treasury and the IRS (referred to hereinafter as "IRS").

On August 28, the IRS released [Rev. Proc. 2025-28](#), providing these procedures. Rev. Proc. 2025-28 includes procedures for making elections and/or accounting method changes to (i) comply with the OBBBA's amendments to §174 and new §174A, (ii) accelerate the recovery of unamortized domestic R&E costs capitalized under §174, as in effect under the TCJA (TCJA §174), and (iii) in the case of eligible small business taxpayers, retroactively apply §174A to domestic R&E costs incurred in tax years beginning after 2021.

This article summarizes the options available for transitioning from TCJA to OBBBA treatment of R&E costs, including favorable options relating to costs incurred in tax years beginning before 2025. This article also discusses certain substantive issues impacted by Rev. Proc. 2025-28 and key considerations for taxpayers grappling with how to treat their R&E costs going forward.

General Transition Rules and Procedures Applicable to All Taxpayers

Rev. Proc. 2025-28 provides several options for (i) domestic R&E costs incurred in tax years beginning before 2025, which remain subject to TCJA §174, and (ii) domestic R&E costs incurred in tax years beginning after 2024, which are subject to new §174A.

The general transition rules discussed in this section are applicable to all taxpayers and may be implemented through one or more accounting method changes, and in some cases, elections, generally for a tax year beginning in calendar year 2025.

1. Domestic R&E Costs Capitalized under TCJA §174

Beginning in 2025, a taxpayer can choose to accelerate the unamortized balance of domestic R&E costs previously capitalized under TCJA §174 through a change in amortization period the new procedure refers to as the “recovery of unamortized amount method.” Alternatively, the taxpayer may choose to continue amortizing the costs over the remainder of the applicable 5-year period.

Two options are provided: (1) amortize the entire unamortized balance in the first tax year beginning in 2025, or (2) amortize the amount ratably over two tax years. It appears that a short tax year would be treated as a full tax year for this purpose. Regardless of the recovery period chosen, the election to accelerate is treated as an accounting method change subject to filing requirements discussed below.

Observation: *Rev. Proc. 2025-28 makes it clear that the accelerated recovery is still treated as amortization for purposes of the taxpayer’s adjusted taxable income (ATI) calculation under §163(j), such that it will be added back to ATI (regardless of whether the taxpayer chooses to recover the unamortized amounts over one or two tax years). This is an extremely favorable clarification by the IRS.*

2. Domestic R&E Costs under §174A (domestic R&E costs incurred in tax years beginning after 2024)

Although domestic R&E costs incurred in tax years beginning after 2024 are subject to a different Code section than costs incurred in pre-2025 years, the procedures still require taxpayers to treat the change in treatment as a change in accounting method rather than the adoption of a new method of accounting. Thus, many taxpayers will have two method changes for their 2025 tax years – one to recover pre-2025 domestic R&E costs as discussed above and one for post-2024 domestic R&E costs. These changes are implemented by including a statement with the federal income tax return, in lieu of filing a Form 3115, for a tax year beginning in 2025.

Observation: *A taxpayer that has both changes can make them concurrently and include them on the same statement in lieu of a Form 3115.*

For its 2025 tax year, a taxpayer may change to a method of deducting its domestic R&E costs in the year incurred (the §174A(a) Deduction Method) or to a method of capitalizing and amortizing its domestic R&E costs over at least 60 months, beginning with the month in which the taxpayer first realizes benefits from the costs (the §174A(c) Amortization Method). A change to capitalize and amortize domestic R&E costs under §174A(c) for the first tax year beginning in 2025 is similarly implemented with a statement attachment in lieu of Form 3115.

Observation: *Under §174(b), prior to amendment by the TCJA (Pre-TCJA §174), a taxpayer could elect to capitalize and amortize its R&E costs on a project-by-project basis. This allowance was provided for in Treasury regulations under §174, and it was unclear whether the same project-by-project election could be made under §174A(c).*

Rev. Proc. 2025-28 appears to answer this question in the negative, by requiring a taxpayer that elects the §174A(c) Amortization Method to agree that it will apply such method to all of its domestic R&E costs incurred in the year of election and going forward. This is significantly less favorable than under Pre-TCJA §174(b) and should be considered when determining whether to make an election under §174A(c).

A taxpayer that adopts or changes to the §174A(a) Deduction Method in its 2025 tax year may elect to apply the §174A(c) Amortization Method in a later tax year. In this case, the election is not made through a change in method of accounting (i.e., it does not apply to costs paid or incurred in tax years before the tax year of the election) and is instead made by filing an election statement with its timely filed return for the tax year of election. The §174A(c) election applies to all domestic R&E costs incurred in the year of election and in future years unless the taxpayer later obtains consent to change its method to expensing. It is likely that such consent would be subject to a 5-year prior change scope restriction if automatic, and may not be granted within a 5-year period if not automatic.

Observation: *A taxpayer that wants to capitalize some, but not all, of its domestic R&E costs should consider a §59(e) election instead of an election under §174A(c). A §59(e) election can be made annually for all or a portion of the domestic R&E costs incurred during the year and otherwise taken into account under §174A(a). This election requires amortizing the capitalized costs ratably over ten years beginning with the tax year in which the costs were paid or incurred, but the downside of a longer recovery period may be outweighed by the flexibility provided with the election. This election may be particularly useful to taxpayers that wish to capitalize all or a portion of their domestic R&E costs in order to treat the recovery as amortization for ATI purposes under §163(j). Additionally, taxpayers that make a §59(e) election may immediately begin recovering amortization for the expenses incurred in the tax year, while the recovery of amounts capitalized under §174A(c) does not begin until the taxpayer first realizes benefits from such expenditures.*

Regardless of how a taxpayer chooses to account for its domestic R&E costs paid or incurred after 2024, if the taxpayer claims a research credit under §41 for the year, §280C(c) requires the taxpayer to reduce its deductible (or capitalizable) domestic R&E costs by the amount of the credit unless the taxpayer makes a reduced credit election under §280C(c)(2) for the year.

The table below illustrates taxpayers' options for the treatment of pre-2025 and post-2024 domestic R&E costs.

Domestic R&E Costs: Options and Related Procedures (Available to all Taxpayers)				
Option	Description	How to Implement	Applicable Costs/Years	Deadline
§ 174A(a) Deduction Method	Domestic R&E costs are deducted in the year incurred	Automatic method change that is applied on a cut-off basis by including a statement in lieu of a Form 3115 with the tax return	Applies to domestic R&E costs incurred in years beginning after 2024 This method change is made for a tax year that begins in 2025	By the tax return due date (including extensions)
§174A(c) Amortization Method	Domestic R&E costs are capitalized and amortized ratably over a period of not less than 60 months, beginning with the month the taxpayer first realizes benefits from such costs IRS consent is required to change to a different method or recovery period for some or all of such costs	Tax year begins in 2025: Automatic method change that is applied on a cut-off basis by including a statement in lieu of a Form 3115 to the return for the year of change Tax year begins after 2025: Election made by attaching an election statement to timely filed return for the year	Applicable to domestic R&E costs incurred in the year of election and in future years Tax year begins in 2025: Election made through automatic method change (statement in lieu of Form 3115) Tax year begins after 2025: Election made by attaching election statement to the return	By the tax return due date (including extensions)
§ 59(e) Election	Allows taxpayers using a § 174A(a) Deduction Method to electively capitalize any amount of domestic R&E costs incurred during the year and amortize ratably over a 10-year period	Annual election made in the year the applicable costs are paid or incurred Election is made with a statement included with the return. (see Treas. Reg. sec. 1.59-1)	Election may be made for all or a portion of domestic R&E costs incurred in tax years beginning after 2024	By the tax return due date (including extensions)
Recovery of Unamortized Amount Method (pre-2025 domestic R&E costs only)	Allows taxpayers to deduct the remaining unamortized amount of domestic R&E costs capitalized under TCJA §174 ratably over the 1- or 2-tax year period beginning in 2025	Automatic method change applied on a cut-off basis with the filing of a statement in lieu of a Form 3115	Tax year beginning in 2025 Change applies to domestic R&E costs paid or incurred in tax years beginning after 2021 and before 2025, that were capitalized and amortized under TCJA § 174	By the tax return due date (including extensions)
Continue to Capitalize and Amortize under existing method (pre-2025 domestic R&E costs only)	Taxpayers can continue to amortize previously capitalized domestic R&E costs over their remaining original 5-year recovery period	No action required; this is the default path if no election to accelerate recovery is made	Domestic R&E costs incurred in tax years beginning after 2021 and before 2025	N/A

Transition Rules and Procedures Available to Small Business Taxpayers

The OBBBA transition rules and procedures in Rev. Proc. 2025-28 allow additional flexibility for eligible small business taxpayers, beyond the general options available to all taxpayers. Most notably, eligible small business taxpayers can elect to retroactively apply §174A to domestic R&E costs incurred in tax years beginning after 2021. Rev. Proc. 2025-28 provides that retroactive application may be applied through an election or through an accounting method change. Each option is discussed further below.

Observation: *Eligible taxpayers that choose to apply §174A retroactively must apply it to all tax years beginning after 2021. In other words, a taxpayer cannot choose to apply §174A to its 2024 domestic R&E costs while continuing to amortize its pre-2024 domestic R&E costs under TCJA §174.*

In order to qualify for these additional transition options, the taxpayer must be a small business taxpayer for its 2025 tax year. A small business taxpayer generally includes a taxpayer (excluding a tax shelter) that meets the gross receipts test of §448(c) for its 2025 tax year (average annual gross receipts for 2022, 2023, and 2024 are \$31 million or less, determined on a controlled group basis). A taxpayer that is a tax shelter in 2025 is not eligible for the small business transition rules even if its gross receipts otherwise meet the gross receipts test. Tax shelters are defined in §448 to include syndicates. A syndicate is an entity (other than a C corporation) that allocates more than 35% of the entity's losses for the tax year to limited partners or limited entrepreneurs. Thus, an entity may be a syndicate for one year but not another.

Observation: *A small business taxpayer may have to choose whether to rely on these transition rules before it knows if it will be treated as a syndicate for 2025 (i.e., before it knows whether it is eligible to rely on the small business transition rules). To provide certainty in this case, a taxpayer can elect to rely on its 2024 allocations to determine if it is a syndicate for 2025. A small business taxpayer that is either (i) profitable in its 2024 tax year, or (ii) has losses for 2024 but allocates less than 35% of the losses of a limited partner or limited entrepreneur should consider electing for its 2025 tax year to rely on the 2024 income/loss allocations to preserve its ability to use the small business transition rules.*

1. Small Business OBBBA Election

Eligible small business taxpayers can elect to retroactively apply §174A to domestic R&E costs incurred in tax years beginning after 2021 and before 2025 (each year treated as an “applicable taxable year”). A taxpayer that chooses retroactive application can adopt either the §174A(a) Deduction Method or the §174A(c) Amortization Method for the domestic R&E costs incurred in the applicable taxable years.

Under Rev. Proc. 2025-28, the election is made by attaching a statement with certain required information to the original or amended tax return (or AAR) for an applicable taxable year. An electing taxpayer must also amend all other applicable taxable years to reflect retroactive application and include the required statement for such year.

Observation: *Although the retroactive election is not treated as an accounting method change, the treatment of R&E costs is a method of accounting. Thus, a taxpayer must be consistent in its application of either the §174A(a) Deduction Method or the §174A(c) Amortization method in an applicable taxable year and may not flip back and forth between methods. However, because the §174A(c) Amortization Method can be elected in any year, the taxpayer could presumably amend its 2022 to adopt the §174A(a) Deduction Method for 2022 domestic R&E costs while amending its 2023 return to adopt the §174A(c) Amortization Method for 2023 domestic R&E costs. In this case, the taxpayer must continue to apply the §174A(c) Amortization Method to domestic R&E costs incurred in 2024.*

This election must be filed with amended returns (or AARs) for each applicable taxable year on or before the earlier of: (i) July 6, 2026, or (ii) the expiration of the statute of limitations for the applicable taxable year. However, in the case of an original return for an applicable taxable year that is timely filed (including extensions) before November 15, 2025, the eligible small business taxpayer will be deemed to have made the retroactive election for such year if it deducts its domestic R&E costs incurred during such year and otherwise complies with the requirements of Rev. Proc. 2025-28 for each other applicable taxable year.

Observation: *Some taxpayers may have generated net operating losses (NOLs) in 2022 and 2023 despite being required to capitalize R&E costs under TCJA §174 (e.g., biotech or other research businesses not yet generating income). A taxpayer*

that was in an NOL position in 2022 and 2023 but expects to generate taxable income in 2024 may be particularly motivated to apply the small business transition rules to reduce the taxpayer's cash taxes in 2024. Taxpayers should note that there does not appear to be the ability to adjust the NOL carryforward in 2024 in lieu of amending 2022 and 2023. Taxpayers that do not wish to amend prior year returns should consider whether they can achieve a similar result by applying the retroactive accounting method change (discussed below) in 2024 instead.

2. Small Business Retroactive Method

Instead of making the Small Business OBBBA Election, eligible small business taxpayers can choose to retroactively apply §174A through an automatic accounting method change filed for the 2024 tax year (the Small Business Retroactive Method). Taxpayers choosing this option are not required to amend prior year returns and will instead recover unamortized pre-2024 domestic R&E costs through a true-up adjustment in the 2024 return. As with other transition method changes in Rev. Proc. 2025-28, this method change is affected through a statement in lieu of Form 3115, attached to an original return filed after August 28, 2025.

Observation: *The deemed small business election allows an eligible taxpayer to expense domestic R&E costs on its original 2024 return without attaching the required statement, as long as the taxpayer timely files the return before November 15, 2025. This reduces some of the administrative burden on small taxpayers that may have already filed their 2024 returns reflecting the §174A(a) Deduction Method. However, satisfying the deemed election for 2024 does not prevent taxpayers from having to amend returns for the remaining applicable taxable years (i.e., 2022 and 2023). A small business taxpayer that fully deducted R&E costs on its original 2024 return but doesn't want to amend prior years should consider whether it can rely on the automatic 6-month extension provided in Rev. Proc. 2025-28 to file a superseding 2024 return to adopt §174A through the small business retroactive method change instead. Implementing the election through the retroactive method change does not change the requirement under §280C(c)(1) to reduce the amount of expenses taken into account in computing the resulting §481(a) adjustment.*

3. Retroactive application of OBBBA's Amendments to §280C

An eligible taxpayer that chooses to retroactively apply §174A must also retroactively apply the OBBBA's amendments to §280C, pursuant to which a taxpayer must reduce its §174A costs by the amount of the §41 research credit claimed for the year, unless the taxpayer makes a reduced credit election under §280C(c)(2). Generally, a §280C(c)(2) election must be made with a timely filed return for the year of election; however, Rev. Proc 2025-28 allows applicable taxpayers to make a late election (or revoke a prior election) under §280C(c)(2) through amended returns for one or more applicable tax years.

A small business taxpayer that applies either the Small Business OBBBA Election or the Small Business Retroactive Method in its original or amended 2024 tax return can make a late §280C(c)(2) election through amended returns for one or more of the applicable tax years as long as (i) the taxpayer filed an original return for the applicable year on or before September 15, 2025 and (ii) the taxpayer makes the late election through an amended return (or AAR) for the applicable year on or before the earlier of July 6, 2026 or the statutory deadline for filing an amended return (AAR) for the year.

Taxpayers that claimed research credits in prior applicable years should consider the impact of §280C(c) when determining whether to apply the small business transition rules.

4. Automatic Extension of 2024 Returns to Make a Method Change or Election Under Rev. Proc. 2025-28

In certain cases, Rev. Proc. 2025-28 provides an automatic extension of the due date of an eligible small business taxpayer's 2024 return in order to allow taxpayer to make a method change or election under the revenue procedure for 2024. These taxpayers may file a superseding return before the extended due date of the return, even if the taxpayer did not extend the return.

Rev. Proc. 2025-28 grants an automatic 6-month extension to file superseding 2024 tax returns if the taxpayer (i) timely filed its 2024 return before September 15, 2025, (ii) did not otherwise request an extension, and (iii) files a superseding tax return (including the furnishing of any Schedule K-1s) on or before the date that is six months from the due date (excluding

extensions) of the taxpayer's 2024 return. This relief is provided only for the purpose of making elections and/or accounting method changes under the small business transition procedures outlined in Rev. Proc. 2025-28.

Observation: *The automatic 6-month extension applies from the un-extended due date of the taxpayer's 2024 return (e.g., a calendar year partnership that did not extend its 2024 return nonetheless has until September 15, 2025, to file a superseding return under this provision). This effectively treats all small business taxpayers as if they extended their 2024 returns, but only for purposes of applying the small business transition rules in 2024.*

The tables below illustrate taxpayers' options under the small business transition rules:

Small Business Taxpayer Table-Simplified:

Option	2024 Treatment of Domestic R&D Costs	Is Taxpayer Required to Amend 2022 and 2023?	§481(a) Adjustment Required?	Statement Required?	Original 2024 Return
Retroactive application: Election	Expense 2024 costs; do not amortize 2022 and 2023 costs	Yes, no later than July 6, 2026, or, if earlier statute of limitations	No	Yes	If taxpayer timely files on or before 11/15/25, deemed to have made this election if expensed domestic R&E and amends 2022 and 2023
Retroactive application: Accounting method change	Expense 2024 Costs and unamortized 2022 & 2023 costs	No	Yes	Yes	Return filed after August 28, 2025 (original or superseding)
No retroactive application	Amortize	No	No	No	N/A

Domestic R&E Costs: Transition Options Available to Small Business Taxpayers for Pre-2025 R&E Costs				
Option	Description	Applicable Costs/Years	How to Implement	Key Requirements & Deadlines
Retroactive Application: Election	Allows an eligible small business taxpayer to retroactively apply the §174A(a) Deduction Method or the §174A(c) Amortization Method to domestic R&E costs incurred in years beginning after 2021.	Domestic R&E costs paid or incurred in tax years beginning after 2021 and before 2025 (i.e. 2022, 2023 & 2024)	Election is made by attaching a statement to the original & amended returns for all applicable tax years. The statement must be titled “Filed Pursuant to § 3.03 of Rev. Proc. 2025-28” and include specific declarations, including that the taxpayer meets the gross receipts test for the first tax year beginning after 2024 and whether the taxpayer is deducting or capitalizing and amortizing the years’ domestic R&E costs over a period of not less than 60 months.	If the election is made on an amended return, it must be filed by earlier of July 6, 2026, or expiration of the statute of limitations for that applicable year.
Retroactive Application: Accounting Method Change	Allows an eligible small business taxpayer to retroactively apply §174A to tax years beginning after 2021 (and before 2025) through an automatic change in method of accounting. This method permits taxpayers to report the impact of the method change in 2024 and prevents taxpayers from having to amend prior year returns.	Domestic R&E costs paid or incurred in taxable years beginning after 2021 and before 2025 (i.e. 2022, 2023 & 2024)	This is an automatic method change that is made by filing a statement in lieu of a Form 3115 with the timely filed 2024 tax return. The statement must include specific declarations including that the taxpayer meets the gross receipts test for the first tax year beginning after 2024 and whether the taxpayer is adopting a method of deducting or capitalizing and amortizing domestic R&E costs over a period of not less than 60 months.	The method change must be made on an original 2024 return timely filed after August 28, 2025. A taxpayer that timely filed its 2024 return before September 15, 2025, but did not extend the return may be able to file a superseding return under the automatic 6-month extension provided in Rev. Proc. 2025-28.
No Change	Taxpayers can choose to continue capitalizing and amortizing their domestic R&D costs in 2024	Domestic R&E costs incurred in 2024 and continued amortization of amounts incurred in 2022 and 2023	This is the default path; no specific election or action is required.	N/A
Make a Late / Revoke a §280C(c)(2) Election	A taxpayer that makes a late §280C(c)(2) election will claim a reduced research for the applicable year in lieu of reducing the R&E costs taken into account for such year A taxpayer that revokes a §280C(c)(2) election previously made for any applicable tax year must reduce the domestic R&E costs taken into account in such year	One or more tax years beginning after 2021 and before 2025, for which the taxpayer claimed a §41 research credit and either: (i) made a §280C(c)(2) election that it now wishes to revoke; or (ii) made no election but failed to reduce the R&E costs taken into account under TCJA §174 for the year	File an amended return for the applicable tax year. Adjust the research credit and domestic R&E costs accordingly, attach an amended Form 6765, clearly indicating the election and its purpose. State “Filed Pursuant to §4.03 or §5.03 of Rev. Proc. 2025-28” and include a statement with required declarations regarding small business taxpayer status.	An eligible taxpayer qualifies to make a late/revoke a §280(C)(2) election only if it implements either the Small Business Retroactive Election or the Small Business Retroactive Method. Amended return(s) must be filed by the earlier of July 6, 2026, or the expiration of the statute of limitations for the applicable tax year. Late elections are irrevocable, and tax years for which an election is revoked under this provision are not eligible for subsequent late elections.

Transition Rule for Duplicate Copy of 2024 Form 3115s: If, before September 15, 2025, a taxpayer properly files the duplicate copy of a Form 3115 with Ogden, UT, for an automatic change in method of accounting under DCN 265 of Rev. Proc. 2025-23 but has not yet filed its tax return implementing such change, the taxpayer may choose to implement the method change either prior to or as modified by the changes made to DCN 265 by Rev. Proc. 2025-28, but not both.

Options for Prior Non-Compliance with TCJA §174

1. Domestic R&E Costs Incurred in Years Beginning Before 2025

Taxpayers that have failed to capitalize and amortize domestic and/or foreign R&E costs as required under TCJA §174 (whether under or over the proper amount), need to file an accounting method change to correct such treatment. Generally, taxpayers may file an automatic accounting method change to correct its treatment of TCJA §174 costs (under the procedures of Rev. Proc. 2025-23); however, the automatic consent procedure may not be available in many cases.

Typically, an automatic accounting method change cannot be filed for the same item within a 5-year period. If the taxpayer previously changed its method in an attempt to comply with TCJA §174, Rev. Proc. 2025-23, as modified by Rev. Proc. 2025-28, nonetheless allows taxpayers to make another automatic change for 2024, but not 2025. A taxpayer that files a TCJA §174 change for its 2024 return will preserve its ability to make the automatic changes to: (i) accelerate the recovery of pre-2025 R&E costs, and/or (ii) adopt a §174A method for post-2024 domestic R&E costs for its 2025 tax year.

A taxpayer that did not make any change in the last five years in an attempt to comply with TCJA §174, can qualify for the automatic consent procedure for 2025, but will not be eligible to make the automatic changes to (i) accelerate the recovery of pre-2025 R&E costs, or (ii) adopt a §174A method for post-2024 domestic R&E costs in 2025. In this case, the taxpayer would have to request these additional changes under the non-automatic consent procedures, which require filing a Form 3115 by the end of the year of change with an IRS user fee.

A taxpayer that makes a change to comply with TCJA §174 should calculate a §481(a) (true-up) adjustment that takes into account only amounts incurred in tax years beginning after 2021 and before 2025. In accordance with general accounting method change procedures, a positive (unfavorable) §481(a) adjustment will be spread over four tax years.

Observation: *A taxpayer planning to file a TCJA §174 method change for domestic R&E costs should consider filing for 2024 in order to preserve the ability to automatically accelerate recovery of unamortized amounts in 2025 and 2026. This will allow the taxpayer to recognize the unfavorable §481(a) adjustment arising from the change over four tax years, while still accelerating recovery of the unamortized costs in 2025.*

2. Foreign R&E Costs

Foreign R&E costs continue to remain subject to mandatory capitalization and 15-year amortization under §174.

Rev. Proc. 2025-28 provides a new automatic method change for foreign R&E costs incurred in tax years beginning after December 31, 2021, with transition rules provided for certain 2024 Form 3115s filed before specified dates.

3. Transition Rules for Reliance on Prior Procedures

Rev. Proc. 2025-28 modifies certain of the procedures in Rev. Proc. 2025-23 (general list of automatic accounting method changes) for making TCJA §174 accounting method changes. Generally, the modifications are effective for Forms 3115 filed after August 28, 2025. However, if a taxpayer files the duplicate copy to make a change under Rev. Proc. 2025-23 prior to its modification prior to November 15, 2025 (for either domestic or foreign research), then the change will be respected as filed. However, if a taxpayer in this situation wants to switch its change to the new procedure, it may but is not required to, provided it files the duplicate copy under the revised procedures prior to September 15, 2025, and has not already implemented the change under the old procedures on a timely filed original return filed prior to September 15, 2025. Presumably, this transition rule would permit the taxpayer to refile an original return as a superseding return as long as the original due date (with extensions) falls after September 15, 2025.

Key Takeaways

As taxpayers navigate the OBBBA's changes to the treatment of R&E costs, careful planning is crucial for both 2024 and 2025 to determine the most optimal treatment of R&E costs under the OBBBA transition rules and §174A.

Eligible small business taxpayers have a unique opportunity to begin expensing R&E costs in years before the new rules become effective for all taxpayers, but these taxpayers must also consider the potential negative impact of the OBBBA's amendments to §280C(c). Additionally, eligible small business taxpayers that choose to retroactively apply §174A will need to consider the benefits and burdens of implementing through the small business retroactive election versus the small business retroactive method.

A taxpayer that failed to properly adopt the TCJA §174 rules may be able to file an automatic accounting method change for 2024 or 2025 to correct its treatment of pre-2025 R&E costs. In either case, the taxpayer will get the benefit of spreading the resulting true-up adjustment over four tax years; however, changes filed for 2025 will prevent a taxpayer from accelerating the remaining balance of its pre-2025 R&E costs under the automatic procedures of Rev. Proc. 2025-28. Taxpayers in this position should consider filing the TCJA §174 change for their 2024 year in order to preserve the ability to automatically accelerate the remaining balance beginning in 2025.

The procedures introduced by Rev. Proc. 2025-28 offer flexibility for taxpayers, especially those who act before specified deadlines in 2025. Taxpayers should pay close attention to these dates to preserve procedural options and avoid unintended consequences.

Ultimately, making timely and well-informed decisions regarding the elections and accounting method changes in 2024 and 2025 can preserve valuable opportunities for subsequent years and optimize the treatment of R&E costs under the current tax landscape. Proactive review of procedures and deadlines will enable taxpayers to adapt effectively to regulatory changes while maximizing available benefits.

Author Information

[Kate Abdoo](#) is a senior managing director, [Natalie Tucker](#) is a partner, [Carol Conjura](#) is a partner, [Colleen O'Connor](#) is a principal, and [Liam Craig](#) is a manager in the Washington National Tax Accounting Methods group.

The information in this article is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser. This article represents the views of the authors only, and does not necessarily represent the views or professional advice of KPMG LLP.