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OBBBA Restores R&E Expensing, Alters Multinational Tax Strategy

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OBBBA restores immediate domestic R&E expensing while reshaping CAMT, BEAT, FDDEI, and R&D credit planning, KPMG practitioners, Natalie Tucker, Kate Abdoo, Seevun Dunckzar, Hogan Humphries, and Alexander Fox state.

Pub. L. 119-21, commonly known as the "One Big Beautiful Bill Act," or OBBBA, delivers the long-anticipated return of immediate deductibility of domestic Research & Experimental, or R&E, expenditures. While the baseline cash flow benefits are clear—including options to accelerate deductions for costs capitalized between 2022 and 2024—the restoration of R&E expensing triggers significant ripple effects across a company's broader tax profile. Altering how and when R&E costs are deducted creates a chain reaction across other complex tax frameworks. The immediate cash tax savings can simultaneously shift a company's exposure and strategic approach regarding the corporate alternative minimum tax, or CAMT, the base erosion and anti-abuse tax, or BEAT, foreign-derived deduction eligible income, or FDDEI, and overall research and development, or R&D credit optimization. This article discusses these interconnected impacts and outlines practical considerations for leadership. Ultimately, maximizing the value of the OBBBA requires comprehensive financial modeling to navigate these overlapping regimes, manage risk, and ensure that tax strategies align with broader business objectives.

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Domestic R&E Costs, R&D Credit

Prior to the OBBBA, the treatment of R&E costs under §174 had become a source of frustration and uncertainty for US businesses. Specifically, beginning in 2022 as a result of changes made by Pub. L.115-97 (commonly known as the "Tax Cuts and Jobs Act" or TCJA), taxpayers were required to capitalize and amortize R&E costs over five or 15 years, depending on the location of the research activities (i.e., five years for domestic research versus 15 years for foreign research), or the "TCJA capitalization rule." This change created significant timing differences, increased taxable income in the short term, and complicated both income tax compliance and financial reporting. The R&D credit remained a valuable incentive, but its interplay with §174 became more complex under TCJA because only certain costs designated as "*qualified* research expenditures," or QREs are eligible for the credit and the timing of deductions and credits diverged.

While foreign R&E costs remain subject to the TCJA capitalization rule (with 15-year amortization) under §174, the OBBBA reversed the TCJA capitalization rule for domestic R&E costs by enacting new §174A. Specifically, for domestic R&E costs incurred in tax years beginning after Dec. 31, 2024, taxpayers generally may deduct such costs in the year paid or incurred under §174A(a) or the "§174A(a) deduction method" or elect to capitalize and amortize them over a period of not less than 60 months (beginning with the month in which the taxpayer first realizes benefits from such costs) (the "§174A(c) amortization method"). In addition, if a taxpayer uses the §174A(a) deduction method for domestic R&E costs, it has the option of electing to capitalize and amortize a portion of or all such costs over a 10-year period under §59(e). The OBBBA also provides transition rules that permit taxpayers to accelerate their recovery of any remaining unamortized domestic R&E costs that were capitalized during tax years 2022 through 2024 and special retroactive relief (back to 2022) for certain eligible small business taxpayers. IRS procedural guidance (Rev. Proc. 2025-28) provides the mechanics for elections and related method changes (see New R&E Expensing Procedures Are Complex With Favorable Options).

CAMT Considerations

CAMT, enacted by Pub. L. 117-169 (commonly known as the "Inflation Reduction Act"), imposes a 15% minimum tax on the adjusted financial statement income or AFSI of certain large corporations. The OBBBA's move to current deductibility of domestic R&E costs under §174A can reduce regular book-tax timing differences for some taxpayers. However, the elective transition rules (i.e., acceleration of unamortized amounts over one or two tax years, or continued amortization of prior-year domestic R&E

costs) can cause a bigger divide between AFSI and taxable income since costs incurred in prior years that are currently being recovered (amortized) for tax purposes were likely expensed in prior years for book purposes and are now being deducted along with current year R&E costs. In addition, the TCJA capitalization rule for R&E costs may have been helpful for CAMT purposes in pre-2025 years because it could have resulted in a taxpayer's AFSI being lower than taxable income, potentially providing a buffer for other book-tax differences for which there is no AFSI adjustment (e.g., stock-based compensation).

Treasury and the IRS recently addressed the recovery of TCJA domestic R&E costs in additional interim CAMT guidance (Notice 2026-7), providing a new AFSI adjustment to better align the CAMT treatment with regular tax treatment for prior year domestic R&E amounts being recovered after 2024 tax years (see Who Won Gold with the Latest CAMT Guidance from Treasury?). Taxpayers should evaluate CAMT impacts when selecting among the §174A transition options and document their CAMT position consistent with the requirements of Notice 2026-7.

BEAT Considerations

The BEAT under §59A is a minimum tax applicable to certain large corporations that make certain outbound payments to foreign affiliates. Deducting domestic R&E costs under §174A directly (and indirectly) affects a taxpayer's BEAT computations, potentially leading to better or worse BEAT outcomes depending on a taxpayer's facts. For example, an increase in deductible (non-BEATable) costs, either because of §174A or because of acceleration of prior year domestic R&E amounts, will generally increase the denominator of a taxpayer's base erosion percentage, and could drive it below the BEAT threshold of 3% (or 2% for certain groups). Alternatively, because BEAT is a minimum tax, a significant decrease in regular taxable income from increased deductions may create or exacerbate a BEAT liability for a taxpayer that is over the relevant base erosion percentage threshold. The opposite can also be true, however, where a combination of §174A expensing for current year domestic R&E costs and acceleration of prior year domestic R&E amounts can be so large that they drive a loss large enough to absorb any deductions relating to BEAT-able payments, thereby counteracting the add-back of such deductions in modified taxable income.

Moreover, while the utilization of certain tax credits, including foreign tax credits and most general business credits, can cause (or increase) a taxpayer's BEAT liability, one of the positive changes in the OBBBA for BEAT is that the favorable treatment for the R&D credit was permanently extended. A TCJA provision allowed the R&D credit to offset a taxpayer's regular tax liability without unfavorably increasing their potential BEAT liability and also contained semi-favorable rules for certain other general business credits, but this beneficial treatment was scheduled to expire for tax years beginning after Dec.

31, 2025. Thus, before the extension provided in the OBBBA, taxpayers subject to BEAT would have been required to reduce their regular tax liability in the BEAT liability computation by almost all tax credits including, importantly, the R&D credit. This change would have significantly increased BEAT exposure for many taxpayers and greatly reduced the value of the R&D credit. However, the OBBBA eliminated this scheduled change, making the more favorable credit calculation permanent and retaining the value of the R&D credit for taxpayers subject to BEAT.

Because BEAT and credit interaction rules can be highly taxpayer-specific, modeling credit utilization against BEAT, based on current statutory language and IRS/Treasury guidance, is highly advisable.

Section 250 (FDII/FDDEI) Considerations

Under TCJA, §250 provided a deduction for foreign-derived intangible income, or FDII. The OBBBA modifies §250 for tax years beginning after Dec. 31, 2025, by reducing the §250 deduction rate (resulting in an effective tax rate of approximately 14%), modifying the FDII calculation to remove the qualified business asset investment, or QBAI reduction, simplifying the calculation of the deduction (leading to renaming the provision as applicable to FDDEI), and excluding interest expense and R&E costs from the set of expenses/deductions allocated to FDDEI in computing the deduction. Although the §250 deduction rate is reduced, the overall changes to the FDII/FDDEI regime may mean more taxpayers benefit from the increased base for the deduction. The §250 deduction is limited by a taxpayer's taxable income, however, such that taxpayers with too large a benefit from §174A or acceleration of prior year domestic R&E costs can lose out on FDDEI benefits, in whole or in part. Taxpayers should model how their recovery of domestic R&E costs interacts with §250 outcomes under the post-2025 rules (i.e., model whether it's helpful to have amortization of TCJA domestic R&E costs in 2026 and later years once the FDDEI changes are effective) and should monitor IRS/Treasury guidance for any implementing regulations or other guidance.

Pillar Two: Practical Interactions for US Multinationals

The OECD's Pillar Two initiative establishes a 15% global minimum tax framework that many jurisdictions have implemented through domestic "top-up tax" rules. The OBBBA did not itself enact Pillar Two into US law; instead, US multinationals must consider Pillar Two primarily as a non-US compliance and cash tax issue that can interact with US incentives and US international tax rules. Nonetheless, the effect on US multinationals is expected to be considerably mitigated by the OECD's recent adoption of a "side-by-side" safe harbor, effective for 2026 tax years, acknowledging that US multinationals are subject to sufficient minimum taxation in the US. While this does not currently impact

foreign multinationals who remain exposed to top-up tax in headquarter or other jurisdictions based on their US operations, the OECD also announced a substance-based tax incentive safe harbor aimed at ameliorating the negative effect of certain credits, like the US R&D credit, to the extent such credits are tied to economic substance in a jurisdiction, as the US R&D credit is. In practice, OECD guidance is not law, and all taxpayers should coordinate their US R&E positions (including §174A elections and R&D credit claims) with Pillar Two modeling, data requirements, and jurisdiction-by-jurisdiction effective tax rate calculations.

R&D Credit Update

OBBBA Changes. While extending the beneficial treatment of the R&D credit for BEAT purposes, the OBBBA also changed the application of §280C to taxpayers claiming the R&D credit in a potentially less beneficial way.

Prior to the enactment of TCJA, §280C(c) prevented a double benefit for qualifying research costs by requiring taxpayers claiming the R&D credit to either (i) reduce their deduction for R&E costs by the amount of the credit, or (ii) reduce the credit by the maximum tax rate for C corporations (currently 21%)–commonly referred to as a "reduced credit election." The TCJA revised §280C(c) and rather than a mandatory reduction to expenses eligible for deduction (if a reduced credit election was not made), taxpayers needed only to reduce the amount of §174 expenditures chargeable to the capital account to the extent the R&D credit exceeded the amount allowable as a deduction in the current year (i.e., the first-year amortization deduction). Due to how the R&D credit is calculated, an excess rarely occurred and §280C(c) became largely ineffective. The OBBBA has essentially returned §280C(c) to how it operated prior to TCJA, and now requires taxpayers to either (i) reduce §174A amounts by the amount of the credit (whether deducted or capitalized), or (ii) elect to reduce the credit by 21% in lieu of reducing §174A amounts.

As part of enacting §174A, the OBBBA also made a slight change to the definition of QREs under §41. Historically, for an expenditure to qualify for the R&D credit, one of the requirements under §41 was that the amounts claimed must be of a character that "may be treated" as R&E expenditures under §174. For amounts paid or incurred in tax years beginning after Dec. 31, 2024, eligibility for the R&D credit now requires that amounts "are treated" as R&E expenditures under §174A. This change seemingly requires that taxpayers treat any expenses claimed towards the credit under the appropriate §174A method of accounting (i.e., the §174A(a) deduction method (with or without a §59(e) election) or the §174A(c) amortization method). Despite the change, Congress made clear that the change was not intended to limit the application of section 41 (see JCS-1-26 (May 28, 2026), footnote 368 on p. 76).

IRS Update. In October of 2025, the IRS provided welcome administrative relief by postponing burdensome new reporting requirements to claim the R&D credit on Form 6765, *Credit for Increasing Research Activities*, and extending the transition period for refund claims (IR-2025-99). Specifically, the IRS postponed the mandatory requirement to complete Section G of Form 6765 for one year. Section G, "Business Component Information," is a new and extensive section finalized for the 2024 Form 6765 that requires taxpayers to provide detailed quantitative and qualitative information for the business components that make up the top 80% of the tax year's QREs (not to exceed the top 50 business components). Responding to feedback from taxpayers and practitioners about the significant administrative burden of this new section, the IRS made Section G optional for the 2025 tax year and mandatory for most taxpayers for tax years beginning in 2026. The additional one-year delay provides taxpayers with more time to develop or refine the accounting systems and procedures necessary to capture the business-component-level data for future filings. Whether additional changes or requirements to implementing Section G will be introduced by the IRS will be forthcoming.

The IRS also extended the transition or "cure" period for certain R&D credit refund claims. Pursuant to Chief Counsel Memorandum 20214101F (Sept. 17, 2021), the IRS requires that refund claims for the R&D credit be accompanied by a specific set of information, often referred to as the "five items of information," later reduced to be "three items of information" (see *IRS sets forth required information for a valid research credit claim for refund*), and *Research credit claims (Section 41) on amended returns frequently asked questions*). Claims submitted without this information are considered invalid. IR-2025-99 extends the R&D credit claim transition period, which gives taxpayers who inadvertently omit the required information 45 days to "cure" the deficiency and perfect their refund claim prior to IRS's final determination on the claim, through Jan. 10, 2027.

Execution, Modeling, and What to Watch

The OBBBA has improved the cash tax profile of many innovation-heavy businesses by restoring current deductibility of domestic R&E costs through new §174A. At the same time, the 2025 and beyond story is not simply "expensing is back." For many taxpayers, the practical challenge will be choosing among elections and transition approaches, supporting positions with documentation that aligns with evolving reporting expectations, and coordinating tax outcomes with financial reporting and cross-border modeling. In short, the reversion to expensing also creates a set of execution choices that may have broad repercussions.

On the transition front, it can be helpful to separate three decisions that are often considered together: (1) the §174A approach for current-year domestic R&E costs, (2) the transition method for unrecovered

domestic R&E costs from 2022 through 2024 tax years, and (3) how those choices interact with CAMT (AFSI adjustments), BEAT sensitivity, the FDDEI deduction, and Pillar Two data feeds. While the OBBBA provides transition relief and the IRS has outlined procedural mechanics (including accounting method change and, in certain cases, amending options), taxpayers should confirm which options are available for their facts and years at issue. In practice, the most workable approach is often the one that balances cash tax results, financial statement considerations, administrative burden, and risk tolerance.

What to watch. First, the guidance cadence: We may continue to see additional procedural rules and CAMT coordination guidance from the IRS, and taxpayers may want to track whether future guidance narrows or expands reliance positions taken under interim notices or proposed regulations.

Second, documentation and reporting: updates to Form 6765 instructions point to continued emphasis on structured substantiation—particularly around cost identification, nexus to qualified activities, and consistency between credit positions and §174A treatment. Additional changes to Section G of Form 6765 could also be coming soon.

Third, global modeling: even without US enactment of Pillar Two, foreign top-up tax rules can turn US incentives into a timing and attribution exercise—tax departments may benefit from testing how §174A elections, R&D credit claims, and §250 outcomes affect jurisdictional effective tax rates and covered-tax computations.

Finally, controversy posture: as more taxpayers file tax returns implementing the changes made by the OBBBA, areas that may draw attention include the boundaries between deductible ordinary and necessary costs under §162 versus R&E costs under §174 or §174A, capitalizable software and intangible property costs, and cost sharing / service arrangements that can influence BEAT exposure and/or FDDEI benefits.

Planning Takeaways

As a result of changes made by the OBBBA, domestic R&E expensing is once again the default, but the policy objective now runs through a more complex operating environment (evolving R&D credit substantiation expectations, CAMT, changes to the US international tax regime, and global minimum-tax frameworks). To operationalize the changes, taxpayers can take a few practical steps: (1) inventory current R&E cost streams and map which costs fall under §174A versus other deduction or capitalization regimes; (2) model the main election/transition paths alongside CAMT, BEAT sensitivity, and §250 outcomes; (3) align documentation so R&D credit narratives, cost-identification workpapers, and financial reporting tell the same story; and (4) monitor IRS/Treasury releases for updates that affect reliance positions or filing mechanics. Framing all these issues as connected workstreams—supported by

shared data and clear governance—can make these steps easier to execute and revisit as guidance continues to develop.

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