

2025 OBBBA Update: How to Save Big with New R&D Tax Rules

Does your business spend time developing new products, improving processes, or building out prototypes? If so, there's a tax update you need to know about.

The R & D tax rules have shifted again, and this time it's good news. Thanks to the One Big, Beautiful Bill Act, businesses can now take advantage of more flexible options when it comes to deducting research and development expenses. Let's take a look at what that means.

Starting in 2025, U.S. businesses can once again fully deduct domestic R & D expenses in the year they're incurred. That means you no longer need to spread those costs out over five years. It's a return to the way things worked before 2022. This change applies only to domestic research. Foreign R & D still needs to be capitalized and amortized under existing rules.

Here's the interesting part, if your business has less than \$31 million in revenue, you may be able to amend your tax returns for 2022 through 2024. Doing so could let you claim full deductions for expenses that were previously amortized and possibly get a refund for past taxes paid.

If your business exceeds that revenue threshold, you still have flexibility. You can deduct any remaining unclaimed R & D balance in 2025 or choose to spread it across 2025 and 2026. The optimal choice depends on your current income and tax planning goals.

R & D doesn't require a high-tech lab or a PhD. Businesses in manufacturing, software, engineering, or product design that spend time solving technical problems, like building or improving processes or prototypes, may qualify. Under the older rules, many businesses choose to reduce or pause R & D claims because of amortization requirements. With full expensing returning, revisiting past and current eligibility may uncover missed opportunities.

If your business has invested in R & D recently, here are a few helpful steps:

Review Past R & D Expenditures: determine whether any deductions were amortized and if you might benefit from amending past returns.

Madison, WI

1221 John Q Hammons Drive
Suite 100
Madison, WI 53717

Phone: (608) 831-8181
Fax: (608) 831-4243

Brookfield, WI

18650 W. Corporate Drive
Suite 200
Brookfield, WI 53045

Phone: (262) 641-6888
Fax: (262) 641-6880

Colorado Springs, CO

P.O. Box 62786
Colorado Springs, CO 80962
Phone: (719) 413-5551

Contact Us:

Email: info@SVAaccountants.com
Web: SVAaccountants.com

Evaluate Your Amendment or Timing Strategy: If you're under \$31 million in revenue, amending could unlock refunds. Otherwise, consider catching up in 2025 or splitting over two years based on projected income.

Consult Your Tax Advisor Early: The opportunity to amend or manage timing may depend on 2025 filing deadline, so acting soon is beneficial.

Assess Eligibility for the R & D Tax Credit: The credit itself hasn't changed, however, pairing it with the ability to deduct many expenses immediately may yield stronger savings.

These updates could bring better cash flow and potential refunds. If your team's been working on experiments, prototype, or process improvement, now is a good time to revisit your R & D tax strategy. Reach out to SVA for help navigating these updates.

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