

Income/Franchise:

California FTB Reminds of State Nonconformity to IRC §174 R&D Deduction Changes under TCJA

Tax News: Deduction of Section 174 Research Expenses – Nonconformity with IRC, Cal. Fran. Tax Bd. (1/24). The California Franchise Tax Board (FTB) reminds taxpayers that California law generally conforms to the Internal Revenue Code (IRC) as of January 1, 2015, and that while California has partially conformed to the federal changes made by the Tax Cuts and Jobs Act of 2017 (TCJA), “California has not conformed to the changes regarding the deduction of research expenses under IRC section 174 effective for tax years beginning after December 31, 2021.” Accordingly, “taxpayers may need to make state adjustments on their California tax returns to account for any federal and state differences associated with the expensing or amortization of research expenditures.” The FTB explains that the TCJA changes to IRC section 174 include updating the terminology of IRC section 174 costs to “Specified Research or Experimental Expenditures.” In addition, under the TCJA, taxpayers must capitalize and amortize their research expenses over five years (domestic) or fifteen years (foreign) for tax years beginning after December 31, 2021, and the current expense or deduction of research expenditures is no longer allowed for federal tax purposes. The FTB specifies that California does not conform to these TCJA changes made to IRC section 174, and it has not adopted the updated terminology to define “Specified Research or Experimental Expenditures” or the expense treatment of research costs. In this respect, California taxpayers may continue to deduct IRC section 174 research expenses paid or incurred or elect to amortize over a five-year period on their California returns. Please contact us with any questions.

URL: <https://www.ftb.ca.gov/about-ftb/newsroom/tax-news/index.html#article3>

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