

Research & Development Expenditures

Tennessee Has Decoupled from Federal R&D Expenditure Provision

Effective for tax years beginning on or after January 1, 2022, Public Chapter 743 (2022) decouples Tennessee's excise tax code from Section 174 of the Internal Revenue Code ("IRC"), as amended by the federal Tax Cuts and Jobs Act of 2017 ("TCJA"), relative to research and development ("R&D") expenditures. The TCJA amended IRC §174 by eliminating the option for taxpayers to immediately deduct R&D expenses and, instead, requires such expenses to be amortized over a 5-year or 15-year period.

Taxpayers May Continue Immediate Deduction of R&D Expenditures for Excise Tax Purposes

To calculate a taxpayer's net earnings or loss subject to Tennessee excise tax, the taxpayer will apply IRC §174 as it existed immediately before the enactment of the TCJA. For excise tax purposes, pursuant to that version of IRC §174, a taxpayer who has paid or incurred R&D expenditures may immediately deduct such expenditures in the taxable year during which the R&D expenditures are paid or incurred.

Reporting Excise Tax Adjustments for R&D Expenditures

The starting point for determining a taxpayer's net earnings or loss subject to excise tax is federal taxable income. For tax periods beginning on or after January 1, 2022, taxpayers will make two adjustments to net earnings or loss subject to excise tax.

Taxpayers will add back on Schedule J the R&D expenditures deduction taken on the taxpayer's federal income tax return for the taxable year. Taxpayers will then deduct on Schedule J the total amount of R&D expenditures paid or incurred by the taxpayer during the taxable year.

For More Information

Visit www.tn.gov/revenue. Click on Revenue Help to search for answers or to submit an information request to one of our agents.

References

Tenn. Code Ann. § 67-4-2006(a); Public Chapter 743 (2022); Pub. L. No. 115-97.