

Income/Franchise:

Tennessee: New Law Decouples from TCJA Changes to IRC §174 Deduction for Research Expenditures

S.B. 2397, signed by gov. 3/24/22. Effective for tax years beginning on or after January 1, 2022, new law provides that Internal Revenue Code (IRC) section 174 involving a federal income tax deduction for certain research and experimental expenditures must be applied for Tennessee franchise and excise tax purposes as it was in effect immediately before enactment of the 2017 federal tax overhaul legislation known as the Tax Cuts and Jobs Act (*i.e.*, P.L. 115-97 or “TCJA”). Under the TCJA, effective for tax years beginning on or after January 1, 2022, qualifying research and experimental expenditures must be deducted for federal income tax purposes over a period of five years, or fifteen years for foreign research and experimental expenditures, rather than fully deductible as incurred. In this respect, the new Tennessee law allows taxpayers to continue to fully deduct all qualifying research or experimental expenditures under IRC section 174 as incurred in computing “net earnings” or “net loss” for Tennessee franchise and excise tax purposes. Please contact us with any questions.

URL: <https://wapp.capitol.tn.gov/apps/BillInfo/Default.aspx?BillNumber=SB2397>

— Joe Garrett (Birmingham)
Managing Director
Deloitte Tax LLP
jogarrett@deloitte.com

Amber Rutherford (Nashville)
Senior Manager
Deloitte Tax LLP
amberrutherford@deloitte.com

John Paek (Atlanta)
Principal
Deloitte Tax LLP
jpaek@deloitte.com

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