

Income/Franchise:

Tennessee DOR Explains Decoupling from TCJA Changes to IRC §174 Deduction for Research Expenditures

Notice No. 22-03, Tenn. Dept. of Rev. (5/22). The Tennessee Department of Revenue issued a notice reflecting new law [see S.B. 2397 (2022) and *State Tax Matters*, Issue 2022-13, for more details on this recently enacted legislation], which effective for tax years beginning on or after January 1, 2022, decouples Tennessee's corporate excise tax code from Internal Revenue Code (IRC) section 174, as amended by the federal Tax Cuts and Jobs Act of 2017 (*i.e.*, P.L. 115-97 or "TCJA"), relative to research and development ("R&D") expenditures. According to the notice, the TCJA amended IRC section 174 by eliminating the option for taxpayers to immediately deduct R&D expenses and, instead, requires such expenses to be amortized over a five-year or fifteen-year period. In this respect, to calculate a taxpayer's net earnings or loss subject to Tennessee excise tax for tax years beginning on or after January 1, 2022, the notice explains that the taxpayer must apply IRC section 174 as it existed immediately *before* the enactment of the TCJA. For Tennessee excise tax purposes, pursuant to that version of IRC section 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." The notice includes instructions on how impacted taxpayers must report Tennessee excise tax adjustments for their R&D expenditures. Please contact us with any questions.

URL: <https://www.tn.gov/content/dam/tn/revenue/documents/notices/fae/22-03fe.pdf>

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

URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/STM/220401_9.html

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