

RESEARCH & DEVELOPMENT

Reinstate Full R&D Expensing

Action Needed:

**Co-Sponsor
H.R. 2673/S.866 to
promote innovation
and R&D in the
construction industry.**

**Pass H.R. 7024, the
Tax Relief for
American Families
and Workers Act.**

Background:

The Tax Cuts and Jobs Act (TCJA) was signed into law in 2017 and included many significant changes to the tax code, some of which were phased in over time. In 2022, one of these changes went into effect, affecting the way research and development (R&D) expenses are taxed.

Before the TCJA, R&D expenses were fully deductible in the year they were incurred under Section 174 of the tax code. The TCJA amended Section 174 so that R&D costs now need to be amortized over five years.

Contrary to what some may believe, many construction firms incur significant R&D expenses each year, especially those that invest in Building Information Modeling (BIM), pre-fabrication and off-site manufacturing, or other new technologies such as drones. These investments can improve productivity, reduce costs, and enhance worker safety at the job site.

Amortizing these costs over five years significantly affects a business's cash flow and reduces the incentive for the construction industry to make these investments. Additionally, because of the unique accounting methods for "long-term" contracts (those longer than one year) that some contractors must use under Section 460 of the tax code, calculating and reporting these costs for a given construction project is exceedingly difficult and time-consuming.

AGC Message:

- **Support the *American Innovation and R&D Competitiveness Act/American Innovation and Jobs Act*.** Bipartisan legislation has been introduced in both the House and Senate to reinstate full expensing for research and development costs under Section 174. The *American Innovation and R&D Competitiveness Act* (H.R. 2673) is led by Congressmen Ron Estes (R-KS), and John Larson (D-CT) and currently has 220 cosponsors. The *American Innovation and Jobs Act* (S. 866) is led by Senators Hassan (D-NH) and Young (R-IN), and has 43 cosponsors. In January, the House of Representatives passed H.R. 7024, the *Tax Relief for American Families and Workers Act*, which reinstated full R&D expensing through 2025. In August, the Senate moved to proceed with consideration of H.R. 7024, but the motion failed by a vote of 48-44.