

The logo for alliant, featuring the word "alliant" in a lowercase sans-serif font, followed by a stylized icon of three vertical bars of increasing height.

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# R&D Expensing's Return Proves Small Businesses Have Influence

For Bloomberg Tax by Dean Zerbe, alliant National Managing Director and former Senior Counsel to the U.S. Senate Finance Committee

The \$3.4 trillion fiscal package signed into law by President Donald Trump contains a particularly beneficial provision for innovative small businesses: a rare retroactive provision addressing capitalization of research and development expenses. This policy victory for small businesses shows the power of their outreach to lawmakers.

The 2017 Tax Cuts and Jobs Act required capitalizing R&D expenses starting in 2022, in contrast to the long-time policy of allowing companies to expense R&D costs. This was crushing for smaller businesses.

I saw first-hand from my work at alliant that imposing capitalization for research expenses on small businesses turned many innovative companies upside down—with black ink becoming red.

For example, a steel company in the South with \$12 million in revenue saw its federal income tax bill more than double from \$307,000 to nearly \$800,000 due to the requirement of capitalizing R&D expenses. For manufacturers that operate on tight margins, the additional (and surprise) tax burden was unprecedented—with major tax bills being paid.

**The new tax law returns to the old policy of expensing domestic R&D costs for all companies starting in 2025. Even better, the allowance for expensing domestic R&D is permanent.**

The key for small businesses is that the law provides for retroactive expensing treatment for R&D costs from Dec. 31, 2021 to Jan. 1, 2025. So that Southern steel company can get a mulligan and a tax refund that it can use to grow its business and hire new employees. This helpful retroactive provision applies to businesses with less than \$31 million dollars in revenue.

The R&D tax credit changes will do much to help the US encourage and support innovation in a wide range of fields—as well as manufacturing. The US must do all it can to encourage the new in this nation, especially with robotics and artificial intelligence widely seen as vital for the country to be competitive.

The process of how the retroactive expensing provision became part of the bill demonstrates the importance of small businesses making their voice heard.

There had been previous efforts to make the R&D tax credit relief retroactive for all businesses in a comprehensive relief bill put together last year by then-Senate Finance Committee Chair Ron Wyden (D-Ore.) and House Ways and Means Committee Chair Jason Smith (R-Mo.). But that bill didn't get over the finish line before Trump's re-election.

In discussions with key tax writers in Congress, there clearly was little to no appetite for any retroactive relief for tax provisions—including R&D—and especially not for large businesses. From my own time as senior counsel for the Senate Finance Committee, I understand how difficult it can be to have elected officials embrace retroactive tax relief (not to mention the cost).



**But because of alliant's long-time work in the R&D space for small and medium-sized businesses, former Rep. Rick Lazio (R-NY) and I were fortunate enough to be invited by key tax writers, including Smith and Senate Finance Committee Chair Mike Crapo (R-Idaho), to talk to them about the ramifications of R&D capitalization for small businesses.**

Shown: alliant Senior Vice President **Rick Lazio** and Senator **Mike Crapo**

**Highlighting numerous small businesses in lawmakers' states and districts that were impacted by R&D capitalization was particularly helpful. The willingness of small businesses to tell their story directly through letters and videos—and allowing us to share their story with elected officials with details of their taxes and finances—was critical.**

Congress hears plenty from big businesses, but from my experience it's rare for them to hear from small and medium-sized business owners who have a technical tax issue beyond just wanting lower rates.

**Overall, elected officials were receptive, as they understood how much the requirement of capitalization had harmed small businesses. Particularly compelling was the diversity of businesses that were affected—engineering, manufacturing of all types, software, and agriculture and food processing—all qualifying for the R&D tax credit and suffering from the capitalization requirement.**

The tax package's expensing for R&D going forward in 2025—and the cherry on top of retroactive relief for R&D expensing—shows what is possible when small businesses join an organized effort to tell their story to Congress. A win for those small businesses, their workers, and the country.

## Bloomberg Tax



### Dean Zerbe

alliant National Managing Director; Former Senior Counsel to the U.S. Senate Finance Committee

Dean Zerbe is alliant's National Managing Director based in the firm's Washington D.C. office. Prior to joining alliant, Mr. Zerbe was Senior Counsel and Tax Counsel to the U.S. Senate Committee on Finance. He worked closely with then-Chairman and current Ranking Member of the Finance Committee, Senator Charles Grassley (R-IA), on tax legislation. During his tenure on the Finance Committee, Mr. Zerbe was intimately involved with nearly every major piece of tax legislation that was signed into law – including the 2001 and 2003 tax reconciliation bills, the JOBS bill in 2004 (corporate tax reform), and the Pension Protection Act. Mr. Zerbe is a frequent speaker and author on the outlook for short-term and long-term changes in tax policy, as well as ways accounting firms can help their clients lower their tax bill. He holds an LL.M. in Taxation from NYU and a J.D. from George Mason University.