

Key Provisions in The One Big Beautiful Bill Act Will Have Major Impact on the Life Sciences Industry



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Since the passage of the 2017 Tax Cuts and Jobs Act (TCJA), many companies in research-intensive industries have been asking Congress to reinstate the immediate expensing of research and experimentation (R&E) expenditures. The TCJA required that beginning in 2022, R&E spending had to be capitalized and amortized over a specified number of years — five years for domestic research and 15 years for foreign research — rather than being immediately deducted. The One Big Beautiful Bill Act (OBBBA) partially restored the ability to expense R&E.

The New Rules for R&E

The OBBBA restores expensing for tax years beginning after December 31, 2024, but only for domestic R&E activities, under new Section 174A. For domestic R&E, taxpayers can immediately deduct expenses or continue to make an election to capitalize R&E expenses and amortize them over 5 or 10 years. Several concurring amendments were made to coordinate with other provisions, such as Section 280C(c), which generally requires the deduction under Section 174A to be reduced by any research credit taken under Section 41. The new law also removes the restriction on deducting the unamortized basis in capitalized domestic R&E when sold, abandoned, or otherwise disposed of.

The Transition

Transition rules generally allow all taxpayers to make an election to deduct the unamortized domestic R&E expenditures made in taxable years beginning after December 31, 2021, and before January 1, 2025, over a one- or two-year period. There are special transition rules for small-business taxpayers with 3-year average annual gross receipts of \$31 million or less, including a rule that allows them to make (or revoke) an election to claim the reduced Section 41 research credit under Section 280C(c) on an amended return. These special transition rules will allow small-business taxpayers to amend their 2022-2024 tax returns and elect to deduct rather than amortize their R&E on the amended returns. The election for this retroactive application by a small-business taxpayer must be made by July 4, 2026.

Further IRS guidance is expected to implement retroactive changes to extended 2024 tax returns that have not yet been filed. The law currently reads that it would require an originally filed return to capitalize R&E expenses and an amended return to claim the immediate deduction of the expenses.

Foreign R&E

Foreign R&E expenditures must still be capitalized and amortized over a 15-year window. As of May 12, 2025, the prohibition on immediately recovering the unamortized basis in foreign capitalized R&E expenses for any property abandoned, disposed of, or retired is clarified to prohibit a reduction to the amount realized upon disposition, therefore requiring foreign R&E to continue to be amortized. Companies should be careful in understanding the geographic allocation of their R&E spending and consider requirements with third-party service providers that will satisfy the domestic expenditure requirements.

Change in Accounting Method Required

The amendments to the law made by the OBBBA are treated as a change in the method of accounting for purposes of section 481. The change will be treated as initiated by the taxpayer, as made with the consent of the Secretary, and such change will be applied only on a cut-off basis.

Further IRS guidance is expected as to whether Form 3115 will be required to report this change in the method of accounting or whether a statement of explanation can be attached, similar to the process when the law went into effect under TCJA.

The Road Ahead

With these significant changes to the R&E landscape and the flexibility of treatment of expenses going forward, analysis and modeling are necessary to determine the best approach with overall tax planning strategies. We will provide updates as additional IRS guidance and clarification is made available. If you have questions about how these potential changes could impact you and your business, please [contact your Dean Dorton advisor](#).