

§174. Amortization of research and experimental expenditures

(a) In general

In the case of a taxpayer's specified research or experimental expenditures for any taxable year-

(1) except as provided in paragraph (2), no deduction shall be allowed for such expenditures, and

(2) the taxpayer shall-

(A) charge such expenditures to capital account, and

(B) be allowed an amortization deduction of such expenditures ratably over the 5-year period (15-year period in the case of any specified research or experimental expenditures which are attributable to foreign research (within the meaning of section 41(d)(4)(F))) beginning with the midpoint of the taxable year in which such expenditures are paid or incurred.

(b) Specified research or experimental expenditures

For purposes of this section, the term "specified research or experimental expenditures" means, with respect to any taxable year, research or experimental expenditures which are paid or incurred by the taxpayer during such taxable year in connection with the taxpayer's trade or business.

(c) Special rules

(1) Land and other property

This section shall not apply to any expenditure for the acquisition or improvement of land, or for the acquisition or improvement of property to be used in connection with the research or experimentation and of a character which is subject to the allowance under section 167 (relating to allowance for depreciation, etc.) or section 611 (relating to allowance for depletion); but for purposes of this section allowances under section 167, and allowances under section 611, shall be considered as expenditures.

(2) Exploration expenditures

This section shall not apply to any expenditure paid or incurred for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral (including oil and gas).

(3) Software development

For purposes of this section, any amount paid or incurred in connection with the development of any software shall be treated as a research or experimental expenditure.

(d) Treatment upon disposition, retirement, or abandonment

If any property with respect to which specified research or experimental expenditures are paid or incurred is disposed, retired, or abandoned during the period during which such expenditures are allowed as an amortization deduction under this section, no deduction shall be allowed with respect to such expenditures on account of such disposition, retirement, or abandonment and such amortization deduction shall continue with respect to such expenditures.

[§201\(d\)\(9\)\(B\)](#), [Pub. L. 97-448, title III, §306\(a\)\(1\)\(A\)\(i\), Jan. 12, 1983, 96 Stat. 2400](#) ; amended [Pub. L. 99-514, title VII, §701\(e\)\(4\)\(D\), Oct. 22, 1986, 100 Stat. 2343](#) ; [Pub. L. 100-647, title I, §1007\(g\)\(5\), Nov. 10, 1988, 102 Stat. 3435](#) ; [Pub. L. 101-239, title VII, §7110\(d\), Dec. 19, 1989, 103 Stat. 2325](#) ; [Pub. L. 113-295, div. A, title II, §221\(a\)\(31\), \(32\), Dec. 19, 2014, 128 Stat. 4042](#) ; [Pub. L. 115-97, title I, §13206\(a\), Dec. 22, 2017, 131 Stat. 2111](#) .)

Editorial Notes

Amendments

2017-Pub. L. 115-97 amended section generally. Prior to amendment, section consisted of subsecs. (a) to (f) relating to treatment of research and experimental expenditures as expenses, amortization of certain research and experimental expenditures, expenditure for the acquisition or improvement of land or property, ore and mineral deposit exploration expenditures, limitation to reasonable research expenditures eligible, and cross references, respectively.

2014-Subsec. (a)(2)(A). Pub. L. 113-295, §221(a)(31), amended subpar. (A) generally. Prior to amendment, text read as follows: "A taxpayer may, without the consent of the Secretary, adopt the method provided in this subsection for his first taxable year-

"(i) which begins after December 31, 1953, and ends after August 16, 1954, and

"(ii) for which expenditures described in paragraph (1) are paid or incurred."

Subsec. (b)(2). Pub. L. 113-295, §221(a)(32), struck out "beginning after December 31, 1953" after "for any taxable year".

1989-Subsecs. (e), (f). Pub. L. 101-239 added subsec. (e) and redesignated former subsec. (e) as (f).

1988-Subsec. (e)(2). Pub. L. 100-647 substituted "section 59(e)" for "section 59(d)".

1986-Subsec. (e)(2). Pub. L. 99-514 substituted "section 59(d)" for "section 58(i)".

1982-Subsec. (e). Pub. L. 97-248, §201(d)(9)(B), substituted "Cross references" for "Cross reference" in heading, designated existing provisions as par. (1), and added par. (2).

1976-Subsec. (a)(2)(A). Pub. L. 94-455, §1906(b)(13)(A), struck out "or his delegate" after "Secretary".

Subsec. (a)(2)(A)(i). Pub. L. 94-455, §1901(a)(30), substituted "August 16, 1954" for "the date on which this title is enacted" after "ends after".

Subsecs. (a)(3), (b)(1), (2). Pub. L. 94-455, §1906(b)(13)(A), struck out "or his delegate" after "Secretary".

Statutory Notes and Related Subsidiaries

Effective Date of 2017 Amendment; Applicability of Change in Method of Accounting

[Pub. L. 115-97, title I, §13206\(b\), Dec. 22, 2017, 131 Stat. 2112](#) , provided that: "The amendments made by subsection (a) [amending this section] shall be treated as a change in method of accounting for purposes of section 481 of the Internal Revenue Code of 1986 and-

"(1) such change shall be treated as initiated by the taxpayer,

"(2) such change shall be treated as made with the consent of the Secretary, and

"(3) such change shall be applied only on a cut-off basis for any research or experimental expenditures paid or incurred in taxable years beginning after December 31, 2021, and no adjustments under section 481(a) shall be made."

Amendment by Pub. L. 115–97 applicable to amounts paid or incurred in taxable years beginning after Dec. 31, 2021, see section 13206(e) of Pub. L. 115–97, set out as a note under section 41 of this title.

Effective Date of 2014 Amendment

Amendment by Pub. L. 113–295 effective Dec. 19, 2014, subject to a savings provision, see section 221(b) of Pub. L. 113–295, set out as a note under section 1 of this title.

Effective Date of 1989 Amendment

Amendment by Pub. L. 101–239 applicable to taxable years beginning after Dec. 31, 1989, see section 7110(e) of Pub. L. 101–239, set out as a note under section 41 of this title.

Effective Date of 1988 Amendment

Amendment by Pub. L. 100–647 effective, except as otherwise provided, as if included in the provision of the Tax Reform Act of 1986, Pub. L. 99–514, to which such amendment relates, see section 1019(a) of Pub. L. 100–647, set out as a note under section 1 of this title.

Effective Date of 1986 Amendment

Amendment by Pub. L. 99–514 applicable to taxable years beginning after Dec. 31, 1986, with certain exceptions and qualifications, see section 701(f) of Pub. L. 99–514, set out as an Effective Date note under section 55 of this title.

Effective Date of 1982 Amendment

Amendment by Pub. L. 97–248 applicable to taxable years beginning after Dec. 31, 1982, see section 201(e)(1) of Pub. L. 97–248, set out as a note under section 5 of this title.

Applicability of Certain Amendments by Pub. L. 99–514 in Relation to Treaty Obligations of United States

For applicability of amendment by Pub. L. 99–514 notwithstanding any treaty obligation of the United States in effect on Oct. 22, 1986, with provision that for such purposes any amendment by title I of Pub. L. 100–647 be treated as if it had been included in the provision of Pub. L. 99–514 to which such amendment relates, see section 1012(aa)(2), (4) of Pub. L. 100–647, set out as a note under section 861 of this title.

Allocation or Apportionment to Sources Within United States of Research and Experimental Expenditures Paid or Incurred for Research Activities Conducted in United States; 2-Year Program

[Pub. L. 97–34, title II, §223\(a\), Aug. 13, 1981, 95 Stat. 249](#) , as amended by [Pub. L. 99–514, §2, Oct. 22, 1986, 100 Stat. 2095](#) , provided that: "In the case of the taxpayer's first 2 taxable years beginning within 2 years after the date of the enactment of this Act [Aug. 13, 1981], all research and experimental expenditures (within the meaning of section 174 of the Internal Revenue Code of 1986 [formerly I.R.C. 1954]) which are paid or incurred in such year for research activities conducted in the United States shall be allocated or apportioned to sources within the United States."