



# **HR.1's Impact on Tech Companies: R&D Capitalization and Qualified Small Business Stock**

# Firm Overview



## Tax

Business, International, Private Wealth,  
Research & Development Tax Credit,  
State & Local, Estate & Trust



## Consulting

Client Accounting Services,  
Outsourced Accounting, Family  
Office, and Early-stage Tech



## Audit

Financial Statement Audits, Reviews &  
Compilations, Benefit Plan Audits, Internal  
Audit, Sarbanes-Oxley Compliance



## Risk Assurance

HIPAA, SOC Reports, ISO  
Certification, NIST



## Software

BlackLine, Netsuite,  
LeaseCrunch, Fyle and BILL



## Sustainability

Double Materiality Assessments, GHG Services,  
Impact Reporting, B Corp Certification Consulting,  
Outsourced Sustainability and CSO Services

# 40+

Years in Business

# 8K+

United States &  
International Clients

# 1K+

Community Service  
Hours Each Year



# CPE Housekeeping

CPE: You must answer 75% of the poll questions, which will be 3 of the 4 polls sent today.\* For full credit, attend for at least 50 minutes.

For internal attendees, complete the course evaluation for the training and provide descriptive feedback.

Communicate with the moderator about tech issues, missed polls, or anything else regarding your participation.

Credit will be issued within two weeks of the training date.

*\*Credit will be given for any response to polling questions*



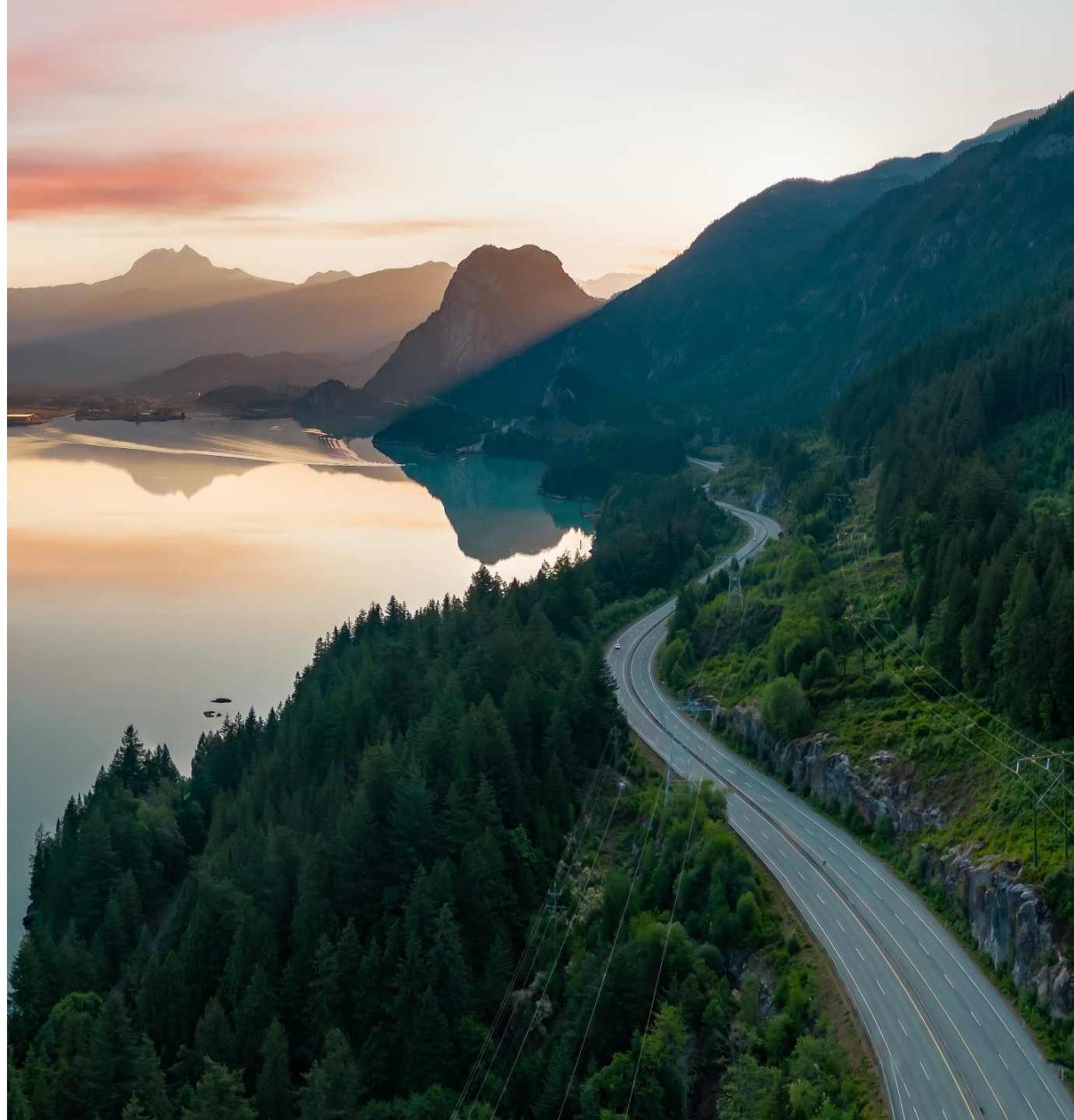
# Our Speakers



**Cole Marr**  
*Partner*

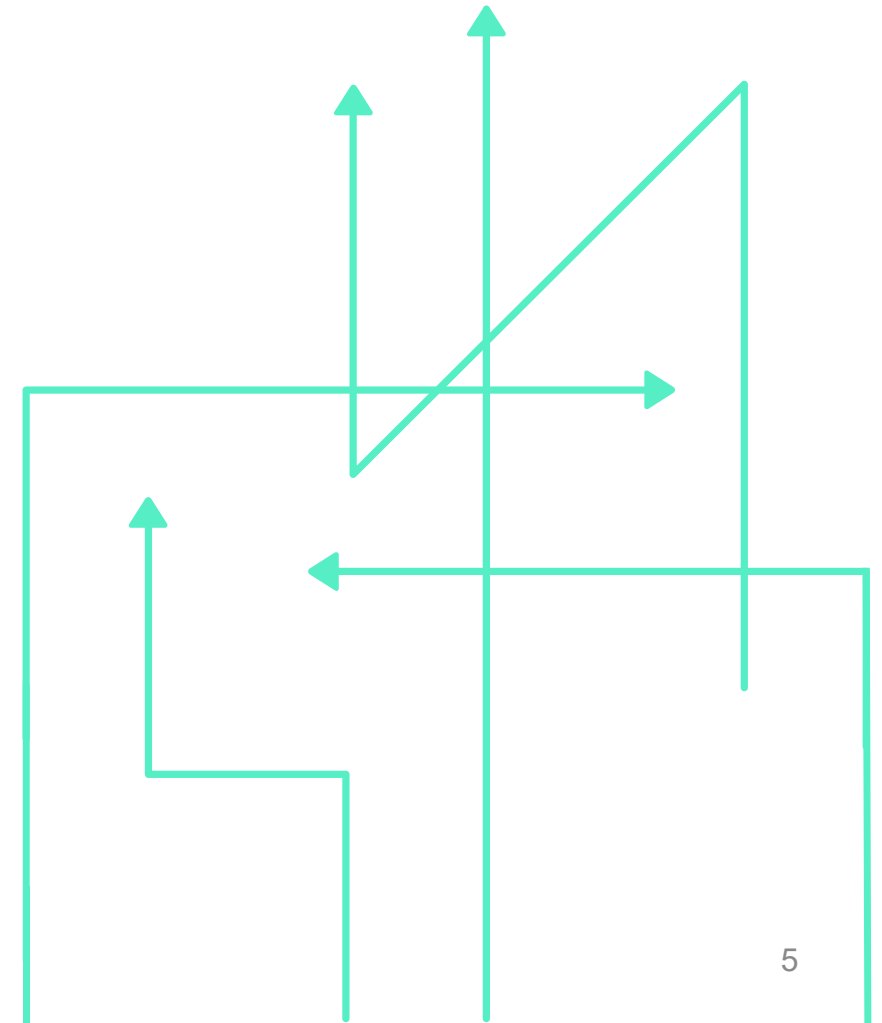


**Ariane Woods**  
*Sr. Manager*



# Learning Objectives

- ◆ Understand the key changes HR. 1 made the Section 174 capitalization requirement.
- ◆ Describe the approaches that may be used to transition R&D capitalization.
- ◆ Explain the changes and key considerations involved in navigating Sec. 1202 Qualified Small Business Stock treatment pre- and post-HR1.





# Agenda

## HR1 Section 174 Changes

- ◆ What has changed?
- ◆ What are the options?
- ◆ What factors should be used in planning?

## Qualified Small Business Stock Changes

- ◆ What is Sec. 1202 QSBS?
- ◆ How is QSBS changing?
- ◆ What factors should be considered?





# H.R.1 - Sec. 174 Changes

# Why Section 174 Matters

- ◆ Section 174 governs the treatment of R&D\* expenditures
- ◆ 2017 Tax Cuts and Jobs Act (TCJA) enacted R&D expensing changes starting in 2022
- ◆ 2022 R&D Capitalization Requirement created massive impacts
  - ◆ Cash Flow, Tax Liability, R&D Investment, Gross Assets & Balance Sheet
- ◆ Interaction with Section 41 R&D Credit and Section 280C elections

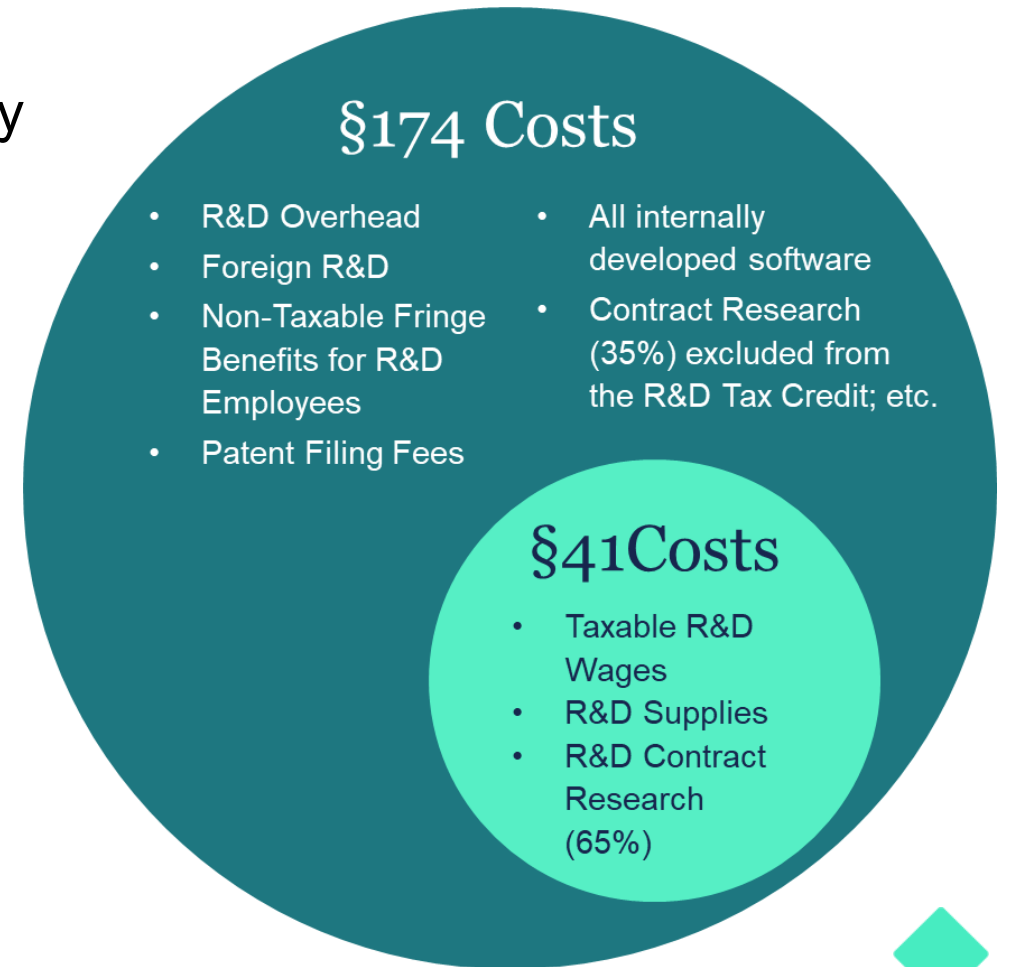
*\* We will use R&D throughout this presentation for simplicity. Note that depending on the tax issue, there are several other phrases used including “research and experimentation” (R&E)*





# TCJA's 2017 Change Was a Delayed Impact

- ◆ Before 2022: R&D Could be expensed immediately
- ◆ TCJA (effective 2022):
  - ◆ Required capitalization & amortization of R&D
  - ◆ 5 years domestic, 15 years foreign
  - ◆ Mid-year start caused even more pain: only 10% in Year 1
- ◆ Especially painful for profitable Technology and Manufacturing companies



# H.R.1 Changes

- ◆ One Big Beautiful Bill Act (OBBBA – H.R.1, July 4, 2025)
  - ◆ Congress responded to industry pressure to fix the problem
- ◆ Created Sec. 174A effective in 2025
  - ◆ Default: **enables immediate domestic R&D expense deduction**
  - ◆ Option: continue to capitalize/amortize
- ◆ Foreign research: continue TCJA treatment, 15-year amortization
- ◆ What do we do with 2024 tax returns and 2022-2023 unamortized amounts?



# H.R.1 Changes

- ◆ Unamortized amounts previously capitalized:
  - ◆ Option 1: Keep existing amortization schedule
  - ◆ Option 2: Accelerate amortization fully in 2025 or across 2025-2026
  - ◆ Eligible Small Businesses: Amend/supersede to undo 174 for 2022-2024
- ◆ Practical consideration: How long will it take the IRS to process refund claims?
  - ◆ Assume 12 months to receive refunds...does it make more sense to simply begin adjusting estimated tax payments for 2025?



# Choices For Any Business

- ◆ No retroactive relief: must follow TCJA capitalization rules through 2024\*
- ◆ Transition Rule:
  - ◆ Remaining unamortized 2022-2024 balances\*\* after 12/31/24 may be:
    - ◆ Expensed in 2025 OR
    - ◆ Amortized evenly across 2025-2026
- ◆ 2025+ domestic R&D: governed by new Sec. 174A

*\* Eligible Small Business have an additional option covered in next slides*

*\*\*This will be 90% of 2024, 70% of 2023, and 50% of amounts capitalized for 2022*



# Eligible Small Business Relief

- ◆ OBBBA provides several additional options for 2022-2024
- ◆ Any company \$31M gross receipts or less (av. 3 prior years), 3 potential options:
  - ◆ Elect change to current year expensing in 2025 (*same as previous slide*)
  - ◆ Retroactive Election: Must Amend 2022-2023, may expense 2024 on current or superseded return
  - ◆ Method Change: Adopt Sec.174A in 2024 via 3115 Method Change
    - ◆ Note – This option is still pending clarification/Rev. Proc. Update
- ◆ When amending – 280C election available for reduced R&D credit amount





# Overgeneralized Examples

- ◆ **Example 1:** Company is not an Eligible Small Business. Sec. 174 expenses were capitalized in 2022, 2023, & 2024. Company is not required to capitalize in 2025 AND can accelerate remaining Sec. 174 amortization in 2025.
- ◆ **Example 2:** Company is an Eligible Small Business. Sec. 174 expenses were capitalized in 2022 & 2023. 2024 tax return is not yet filed. Company can avoid capitalization in 2024 and may decide to amend 2022 & 2023 for refunds.
- ◆ **Example 3:** Company is an Eligible Small Business. Sec. 174 expenses were capitalized in 2022 & 2023. 2024 tax return was filed in May 2025. Company can choose any of 3 options: amend, method change (superseding return allowed), or accelerate amortization all in 2025.



# Key Takeaways

- ◆ Eligible Small Businesses
  - ◆ 2024 expensing possible – requires detailed analysis to determine best path, will require 2022-2023 amending or accounting method change (further guidance needed)
- ◆ Large Businesses
  - ◆ “Immediate” relief not available, accelerated amortization beginning 2025
  - ◆ Any size company can decide to simply change R&D expense treatment in 2025
- ◆ Detailed analysis required to determine the best path forward





# Qualified Small Business Stock (QSBS)

# Overview

- ◆ **What is QSBS?**
  - ◆ Tax incentive under §1202 since 1993.
  - ◆ Noncorporate taxpayers may **exclude gain** from sale of qualified small business stock.
- ◆ **Purpose:** Encourage investment in small C corporations by allowing shareholders to exclude some or all gains from taxable income.



# Core Eligibility Requirements

- ◆ Stock of a **domestic C corporation**.
- ◆ Acquired at **original issuance** (not secondary market).
- ◆ Issuer must be a **qualified small business (QSB)**.
- ◆ Must meet **active trade or business test** ( $\geq 80\%$  assets).
- ◆ Held for **5+ years** (pre-OBBBA rule).





# Ineligible Entities

- ◆ QSBS exclusion **not available** for:
  - ◆ DISCs (domestic international sales corporation)
  - ◆ RICs (regulated investment company)
  - ◆ REITs (real estate investment trust)
  - ◆ REMICs (real estate mortgage investment conduit)
  - ◆ Cooperatives



# Original Issuance Rule

- ◆ Must be acquired:
  - ◆ For cash, property (non-stock), or services (not underwriting).
  - ◆ Directly from the corporation or underwriter.
- ◆ Cannot be purchased on **secondary market** .



# Qualified Small Business (QSB) Test

- ◆ Gross Asset Tests:
  - ◆  $\leq$  \$50M at all times before issuance.
  - ◆  $\leq$  \$50M immediately after issuance (incl. capital raised).
- ◆ **Aggregation applies:** Parent–subsidiary groups counted together.
- ◆ Note: Stock retains QSB treatment as of date of issuance even if corp. later exceeds \$50M .

## Active Business Requirement

- ◆  $\geq$ 80% of assets must be used in a **qualified trade or business**.
- ◆ Excludes service fields (law, accounting, consulting), finance, hospitality, etc.



# Qualified Small Business Stock after OBBBA Comparison

Summary of Changes	Before OBBBA	After OBBBA
Aggregated Gross Asset Threshold	\$50M	\$75M + inflation adjustments (from 2027)
Required Holding Period	More than 5 years	At least 3 years
Tiered gain exclusion percentages	<ul style="list-style-type: none"><li>• 50% for stock acquired before February 18, 2009</li><li>• 75% for stock acquired between Feb. 18, 2009-Sept. 27, 2010</li><li>• 100% for stock acquired after September 28, 2010</li></ul>	<ul style="list-style-type: none"><li>• 50% stock held for three years</li><li>• 75% stock held for four years</li><li>• 100% stock held for five years or more</li></ul>
Per-Issuer Gain Exclusion Limitation	Greater of (i) \$10M or (ii) 10 times the taxpayer's basis in the stock	Greater of (i) \$15M (effective 7/4/2025), with inflation adjustments starting in 2027 or (ii) 10 times of the taxpayer's basis in the stock.

# Grandfather Rules

- ◆ Pre-OBBBA stock (issued before July 4, 2025):
  - ◆ Remains subject to **old §1202 rules**.
  - ◆ New OBBBA rules **do not apply retroactively**.
- ◆ No Transition or Opt-In:
  - ◆ Cannot convert old shares into new treatment.
  - ◆ Each block of stock must be tracked separately:
    - ◆ Basis, Holding Period, Exclusion Percentage
- ◆ Key Takeaway: If you hold both **pre- and post-OBBBA QSBS**, maintain **careful recordkeeping** to apply the correct rules.





# Planning and Pre-Investment Considerations

- ◆ Expectation of a **3–5 year holding period**.
- ◆ Asset value  $\leq$  \$75M after OBBBA.
- ◆ Must operate an active trade or business.
- ◆ Double taxation (21% corporate rate + dividends) remains a factor.
- ◆ Investor base: **noncorporate taxpayers**.
- ◆ Management commitment to maintain §1202 compliance.

Key Takeaway: Maintain a QSBS file, Monitor Asset Levels & Corp Structure, Consult an Expert





One More Thing

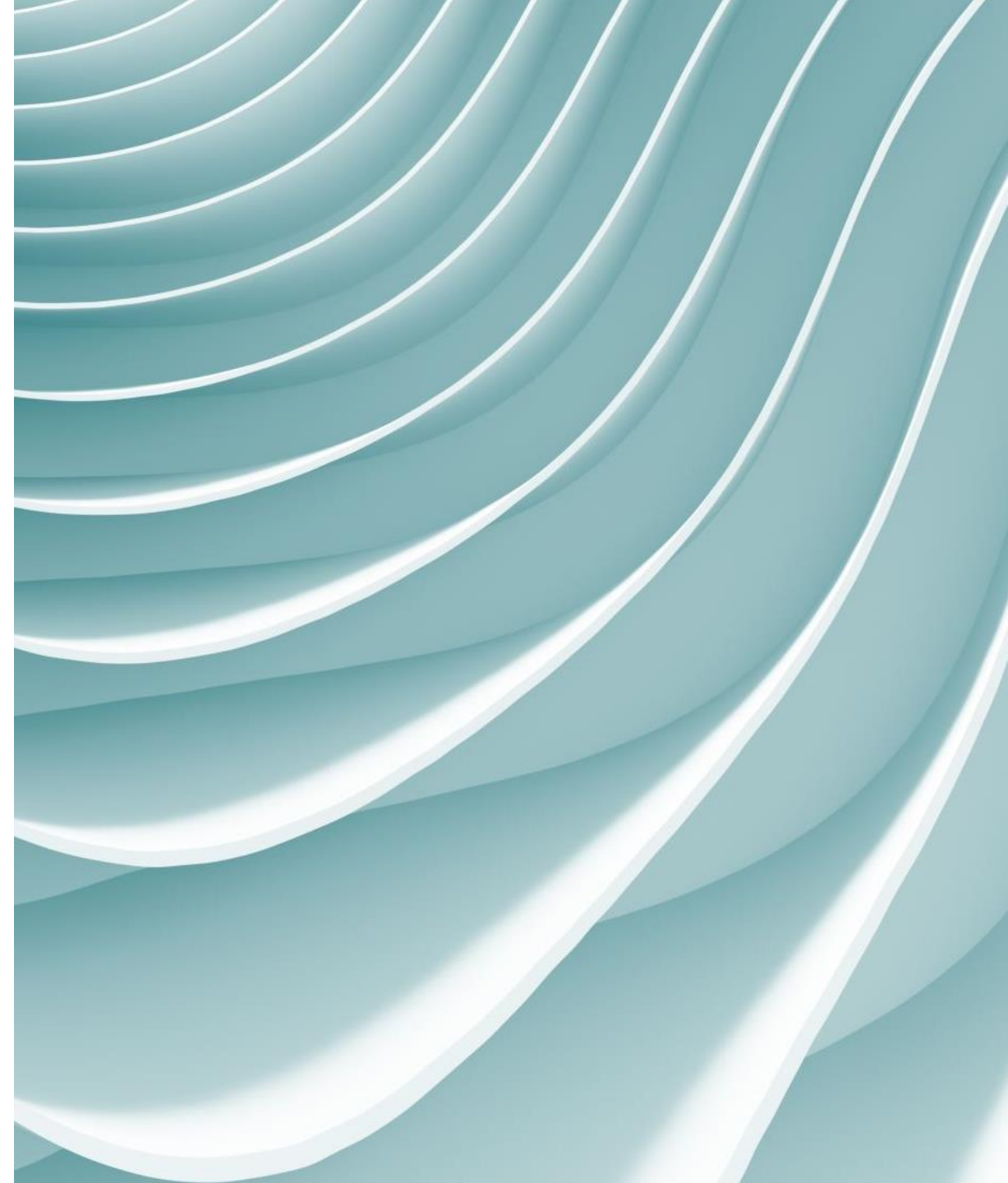
# Changes to R&D Credit Reporting on Form 6765

IR-2023-173 – Released Sept 2023

Updated draft released December 2024

Instructions and Form finalized February 2025

- ◆ Additional detail on form about the company and business components
- ◆ Consistent and predefined format for reporting
- ◆ Help reduce inflated claims and focus IRS resources
- ◆ IRS looking to make sure taxpayers are scaling back properly for non-qualified activities and portions of business components





Q&A





# Thank you!

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