# State-Level Impacts Following 2025 Federal Tax & Spending Bill by PTG

The federal restoration of **§174 expensing** under the **Big Beautiful Bill** has ripple effects across many state-level **R&D credit programs**—but the impact varies significantly by **state**, depending on whether and how each jurisdiction **conforms** to the **Internal Revenue Code (IRC)**. The memo below details how the federal changes will affect **state R&D credits**, broken down by types of **conformity**, and what **actions taxpayers** should consider.

## IMPACT OF §174 CHANGES ON STATE CREDITS

### 1. States with Rolling Conformity

These states automatically adopt changes to the IRC, including the restoration of immediate expensing under §174. As a result, the base amount for state R&D credits—if modeled after federal §41—will reflect higher current-year Qualified Research Expenses (QREs). This creates opportunities to amend state returns and enhance state credit claims for 2022 and 2023.

**Effect:**

- **Increased state R&D credits**, assuming the state uses the federal definition of QREs or piggybacks on Form 6765.
- **Amended state returns may be available**, mirroring federal amendments for 2022 and 2023.

**Recommendation:**

- Clients in these states should evaluate **state refund opportunities** parallel to federal amended returns.

**Why:**

- These states automatically conform to federal §174 changes, so immediate expensing applies retroactively for 2022 and 2023.
- State-level QREs will now be higher, resulting in larger state R&D credit amounts.
- Amended state returns are generally permitted and can mirror the federal amendment process.

**Rolling Conformity States:**

- The following states will reflect retroactive §174 expensing at the state level: **Alabama**, **Alaska**, **Arizona**, **Arkansas**, **Colorado**, **Connecticut**, **Delaware**, **District of Columbia**, **Florida**, **Hawaii**, **Idaho**, **Illinois**, **Indiana**, **Iowa**, **Kansas**, **Kentucky**, **Louisiana**, **Maine**, **Maryland**, **Massachusetts**, **Michigan**, **Minnesota**, **Missouri**, **Nebraska**,

**Nevada**, **New Jersey**, **New York**, **North Dakota**, **Ohio**, **Oregon**, **Rhode Island**, **South Carolina**, **Utah**, **Vermont**, **Virginia**, **Wisconsin** — and others.

> ***Note:*** *Some rolling conformity states may have decoupled from §174 or §280C in later legislation. Always verify current state treatment (e.g., Wisconsin may require adjustment for pre-2022 treatment).*

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## 2. States with Static Conformity

If a state's conformity to the IRC is fixed to a date **prior** to the Big Beautiful Bill (e.g., January 1, 2022), it **may still require amortization** of §174 expenses and may not reflect the favorable federal changes.

**Effect:**

- **Mismatch** between **federal and state QRE** definitions.
- Potential **adjustments or addbacks** required on state returns.
- **State R&D credits may not increase** as much as federal.

**Examples of Static Conformity States Include:**

- **California** has a fixed conformity date and does not conform to many IRC changes unless affirmatively enacted.
- **Texas** (before 2024 reforms) required separate calculations under the **Texas Franchise Tax R&D credit**, not linked to current IRC §41 rules.
- **Hawaii**, **Massachusetts**, **New Hampshire** (subject to confirmation of current conformity dates).

**Recommendation:**

- Carefully **review state conformity dates and guidance**.
- Consider filing **protective refund claims** or pursuing legislation-driven opportunities if your state is reviewing conformity updates.
- File additive adjustment (e.g., California Schedule M) to add back federal amortization; consider amended returns if federal changes weren't properly added.

**Why:**

- No additional deduction to claim—already fully expensed.
- The state only needs adjustment to remove federal amortization if filed.

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## 3. States with Selective Conformity

These states only conform to **parts** of §41 and §174 or use **unique definitions** of qualified research.

**Effect:**

- Taxpayers may need to prepare a **custom calculation** of QREs for the state credit.

- State-level credits may be **unaffected** by federal changes unless the legislature acts.

**Example:**
- **Tennessee** and **New Hampshire** have business tax credit programs that differ significantly and often require **direct proof of in-state R&D** activities without full reliance on §41.

**Recommendation:**
- Do not assume a federal amendment translates to a state benefit.
- Prepare **separate QRE calculations** for these states based on published rules or recent administrative guidance.

**Why:**

- These states often require customized documentation and do not adopt federal definitions entirely.
- Federal amendments to §174 may have **little or no effect** on state credits unless the state legislature passes conforming changes.
- Credits may still be available, but with different criteria or reporting formats.

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## 4. States with Selective Decoupling (Legislative Carveouts)

These states took legislative action to **decouple from the TCJA's §174 amortization requirement,** preserving full deduction post-2022.

**States and Actions Taken:**
- **Tennessee**, **Wisconsin** decoupled to pre-TCJA rules
- Legislation in **Georgia (May 2023)**
- **Indiana (May 2023)**
- **Mississippi (March 2023)**
- **New Jersey (July 2023)**
- **Recommendation:** Ensure your federal amortization entries do not inadvertently carry through to state returns. In these states, you may be entitled to both **state-level full expensing** and a separate benefit from federal amended returns.

**Why:**

- These states affirmatively preserved full §174 deductibility post-2022.
- This means your state return may already reflect immediate expensing—even when your original federal return did not.
- Dual benefits may be available, but filings must be carefully synchronized to avoid overstatement or inconsistency.

## 5. Special Case States (Partial Conformity & §280C Issues)

Some states conform to federal §174 expensing rules but do **not** conform to §280C, the provision that limits deductions when a research credit is claimed. This creates the potential for a **double benefit**—allowing businesses to take the full §174 deduction *and* claim the full R&D credit at the state level.

**Examples:**

- **South Carolina** – Conforms to §174 expensing but does **not** conform to §280C. This may allow a full deduction **and** full credit on the same expenses.
- **Oregon** – May allow a subtraction modification if the federal deduction is reduced due to §280C, potentially restoring the full deduction for state purposes.

**Recommendation:**

- Evaluate opportunities to claim both the full deduction and the full credit in these states.
- Carefully model the interaction and confirm benefit eligibility based on current state guidance.

**Why:**

- These states conform to §174 expensing but do **not** impose §280C coordination rules.
- As a result, the same expenditures may qualify for both **a full deduction** and **a full credit**, which is disallowed federally.
- This unique interaction may create additional tax savings if handled properly and documented thoroughly.

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## 6. Additional Considerations

**Interaction with Net Operating Loss (NOL) Adjustments**

- If §174 deductions now reduce taxable income at the state level, they may also increase or reduce **state NOLs**—potentially changing prior-year or future-year tax outcomes.

**Documentation Alignment**

- Maintain **separate audit-ready files** for each state, especially if the state decouples from federal §41 or §174 provisions.
- Ensure clear **allocations for in-state vs. out-of-state** R&D labor and supplies where required (e.g., Iowa, Utah).

**Legislative Monitoring**

- Some states (like **Arizona**, **Iowa**, and **Utah**) have **recently updated or expanded** their R&D credit laws in response to broader economic policy and may pass **conformity legislation** soon.

## State-by-State Summary Table

| **State Category** | **States (*non-exhaustive*)** | **§174 Treatment** | **Action Required** |
|---|---|---|---|
| **Rolling conformity** | AR, CO, FL, IL, MA, MN, NY, PA, UT… | Follow federal — now full expensing | Amend returns, recalc credits |
| **Static conformity** | CA, TX | Pre-2022 immediate expense, no change | Add-back federal amortization |
| **Decoupled** | GA, IN, MS, NJ, TN, WI | Full expensing state-side | Sync federal and state filings |
| **Special** | SC, OR | §174 conforming, §280C non-conforming | Model double-benefit, amend as needed |