

### Research & Engineering/Development

*Rhode Island Manufactures should note that businesses incurring Research & Engineering (R&E) expenditures will still need to capitalize and amortize R&E costs for Rhode Island income tax purposes for 2025.*

The federal tax law now allows a small business (generally average annual Gross Receipts under \$31M) to amend tax years 2022, 2023 and 2024 to deduct previously capitalized R&E costs and to deduct costs incurred in 2025. All other businesses will be able to deduct R&E expenses incurred in 2025 and to deduct the unamortized R&E expenses incurred in 2022 through 2024 either all in one year (2025) or over two years (2025 and 2026). Since Rhode Island decoupled from any federal tax law changes of the OBBB that reduced revenue in tax year 2025 and earlier years, this is not allowed for Rhode Island income tax purposes. For RI businesses that elect to expense R&E in 2025, the full deduction may not be claimed for RI income tax purposes in 2025 and a RI Schedule 174A (Amortization Worksheet) will need to be completed and filed along with RI Schedule HR-1, to account for the different income tax treatment for Rhode Island businesses. The ability to expense R&E costs incurred in 2026 and future years are allowed to be currently deductible unless Rhode Island legislation is passed in 2026 to once again decouple for the federal provision of OBBB.

**Kevin Papa**  
Managing Director  
CBIZ  
Phone: (401) 600-4630



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100 Westminster St, Ste 500 | Providence | RI | 02903