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Page Title: How a Bipartisan Tax Bill Would Affect Business Tax Deductions and Credits | [INSERT RELATED SERVICE] | [INSERT FIRM NAME]

Meta Description: [NAME OF FIRM] explores the potential impact of the Tax Relief for American Families and Workers Act (TRAFWA) of 2024 on businesses' tax obligations.

Headline: How a Bipartisan Tax Bill Would Affect Business Tax Deductions and Credits

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A bipartisan group of Congress members announced in January 2024 that they had reached an agreement on a tax bill. The following day, they introduced H.R.7024, the Tax Relief for American Families and Workers Act (TRAFWA) of 2024. The House of Representatives passed the bill on January 31. It now awaits action in the Senate. Several sections of the bill would modify certain business tax credits and deductions. This article discusses the changes TRAFWA would make that could affect businesses and their tax bills.

Delay of Limits on Tax Deductions

TRAFWA would delay the implementation of two significant provisions of the Internal Revenue Code (IRC) that affect business tax deductions.

Capitalization of Research Expenses Under § 174

Section 174 of the IRC bars taxpayers from deducting "specified research or experimental expenditures" (SRE) during the tax year that they incur those expenses. It defines SRE as "research or experimental expenditures" that a business incurs "in connection with [its] trade or business." Taxpayers must capitalize those expenses and amortize them over the following periods:

- 5 years for domestic SRE; or
- 15 years for foreign SRE, meaning research conducted outside of the United States or its territories.

TRAFWA would delay implementation of § 174 until January 1, 2026, but only as it pertains to domestic SRE. It would add § 174A, entitled "Temporary Rules for Domestic Research and Experimental Expenditures," to the IRC. Taxpayers could deduct domestic SRE for tax years through 2025. Foreign SRE would still be subject to amortization over 15 years.

Deduction of Business Interest Under § 163(j)

The amount of business interest expenses that a taxpayer can deduct is subject to limits set by IRC § 163(j). The total amount of the deduction may not exceed the sum of the following figures for the taxable year:

- The taxpayer's business interest income;
- 30% of their "adjusted taxable income" (ATI), which may not be less than zero; and
- Their "floor plan financing interest," which primarily applies to businesses that lease or sell motor vehicles.

TRAFWA would modify the definition of ATI found in § 163(j)(8)(A)(v). As currently written, calculating ATI does not allow the deduction of depreciation, amortization or depletion for all tax years after January 1, 2022. TRAFWA would change this to "January 1, 2026." It would also allow taxpayers to retroactively recalculate their business interest deductions back to the tax year 2022.

Deducting Depreciable Expenses

Generally speaking, the IRC requires taxpayers to capitalize many types of business property. They must depreciate those assets over a specified period. The length of time depends on the type of property and can range from three to years to several decades. There are some exceptions to the depreciation requirement when taxpayers can deduct the purchase price of property right away. TRAFWA would modify those exceptions.

Extension of Bonus Depreciation

Bonus depreciation, as defined by [§ 168(k) of the IRC], allows taxpayers to deduct part of the cost of "qualified property" during the year they acquired the property. The Tax Cuts and Jobs Act of 2017 allowed taxpayers to deduct 100% of the cost for a limited time. The amount of the deduction dropped to 80% in 2023. Under current law, it will continue to drop until it phases out at the beginning of 2027.

TRAFWA would amend the phaseout provisions of § 168(k) by extending the 100% bonus deduction through 2025 and allowing taxpayers to claim it retroactively for 2023. For the tax year 2026, the deduction would be 20%. No bonus depreciation would be available in 2027 and afterward.

Section 179 Deductions

Under § 179 of the IRC, taxpayers can deduct the cost of certain assets rather than capitalizing and depreciating them. The deduction is subject to a dollar limitation and a phaseout threshold, both of which may be adjusted for inflation. Section 179 currently sets these amounts at $1 million and $2.5 million, respectively. TRAFWA would increase them to $1.29 million and $3.22 million.

End of the Employee Retention Credit

Congress created the Employee Retention Credit (ERC) in 2020 to encourage employers to keep employees on the payroll during the COVID-19 pandemic. Employers could claim a credit against their payroll tax obligations for wages and salary that they paid during government-ordered shutdowns or periods of reduced economic activity in 2020 and 2021.

While the ERC has not been available since the end of 2021, the IRS continued to process claims into 2023. It paused all ERC claims in September 2023, citing concerns over "questionable claims." The IRS warned of "aggressive marketing" by promoters who would falsely inform employers that they were eligible for the credit and collect a fee to prepare a claim form.

TRAFWA would make two changes to the ERC program:

- Impose greater penalties on promoters making false claims; and
- Stop all processing of ERC claims after January 31, 2024.

Learn More About Business Tax Credits and Deductions

Many tax credits and deductions might be available to businesses. Determining which ones would work best can be challenging. Frequent changes to federal tax laws only make this process more difficult. A tax professional can guide businesses through the process of claiming tax benefits.

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