



Indiana Department of Revenue

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Income Tax Information Bulletin #127

Subject: Modifications for Specified Research Expenditures

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References: IC 6-3-2-29; IRC § 174; IRC § 174A

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Introduction

In 2023, the Indiana General Assembly enacted IC 6-3-2-29, which created a new modification for specified research expenditures. The 2023 legislation required taxpayers that amortized their specified research expenditures to claim the full amount of expenses in the year in which the expenses were first deductible for federal purposes. As the expenses were amortized and deducted for federal purposes, the actual federal deduction was required to be added back. The Indiana-specific acceleration of expenses was retroactive to January 1, 2022.

In 2025, Public Law 119-21 ("H.R. 1") provided different deduction and amortization allowances for domestic and foreign research expenditures effective for 2025 and later. Generally, domestic research expenditures are permitted to be claimed in full (i.e., expensed) while foreign research expenditures are required to be amortized. H.R. 1 provided for the acceleration of the deduction for certain pre-2025 domestic research expenditures as well as a limited allowance to elect to claim domestic research expenditures in the year the expenditures were incurred.

Definitions

For purposes of this bulletin, "specified research expenditures" means:

- For expenses first allowable as a deduction in taxable years beginning in 2022 through 2024, research expenditures deductible under IRC § 174.
- For expenses first allowable as a deduction in 2025 and later, both domestic research expenditures deductible under IRC § 174A and foreign research expenditures deductible under IRC § 174.

The definition does not include any amounts for which a deduction is disallowed under IRC § 280C(c) (research expenses for which a research expense credit is claimed for federal purposes).

“Domestic research expenditures” for taxable years beginning in 2025 and later generally has the same meaning as provided in IRC § 174A(b). In limited circumstances, the term includes expenses incurred in 2022 through 2024 that would have fallen into that definition if IRC § 174A had been in effect for 2022 through 2024.

“Foreign research expenditures” for taxable years beginning in 2025 and later has the same meaning as provided in IRC § 174(b).

“Incurred,” as it relates to a taxable year, means the first year in which the specified research expenditure was allowable as a deduction for federal tax purposes, regardless of whether the deduction was for amortization. An expense is incurred in a taxable year regardless of whether the deduction for that taxable year is disallowed due to federal limitations such as passive loss or basis limitations. For instance, if an expense is amortized for federal purposes from 2022 through 2027, inclusive, the expense is incurred in 2022.

General Treatment of 2022-2024 Specified Research Expenditures and post-2024 Foreign Research Expenditures

For specified research expenditures incurred from 2022 through 2024 as well as foreign research expenditures incurred in 2025 and later, the full amount permitted as a deduction for federal purposes is deductible in the year in which the expense is first deductible for federal purposes. Because the Indiana deduction is accelerated, the federal amortization deduction is required to be added back each year.

For Indiana purposes, the actual amount deductible and amortization to be added back are reported separately. The net expensing deduction and amortization addback should not be reported as a net number.

Example: Taxpayer incurs \$1,000,000 in specified research expenditures in 2023. The expenses are amortized over five years for federal purposes. Disregarding any 2025 federal amendments, the reporting of Indiana modifications is as follows.

Year	Federal amortization	State expensing allowance	State expensing (Code 641)	Amortization addback (Code 154)
2023	100,000	1,000,000	1,000,000	100,000
2024	200,000	-	-	200,000
2025	200,000	-	-	200,000
2026	200,000	-	-	200,000
2027	200,000	-	-	200,000
2028	100,000	-	-	100,000

Any acceleration of pre-2025 specified research expenditures deducted for federal purposes under H.R. 1 Section 70302(f)(2) shall be reported as an addback for Indiana purposes in the year in which the expense was actually deducted for federal purposes.

Foreign research expenditures amortized for taxable years beginning in 2025 and later shall be fully deductible in the year in which the expense is incurred for federal purposes and amortization added back in the manner provided for pre-2025 specified research expenditures.

If the full deduction of specified research expenditures would have been disallowed for federal purposes due to basis or passive loss limitations, the Indiana deduction is disallowed to the extent the basis or passive loss limitation is exceeded. For these limitations, the excess deduction is carried over and treated as a specified research expense incurred in the next year and subject to the same limitations for the next year and each taxable year thereafter. However, this does not require a separate Indiana basis computation.

Domestic Research Expenditures for 2025 and later

For domestic research expenditures incurred in taxable years 2025 and later, no addback or other modification is required for the expenses deducted for federal income tax purposes. If a taxpayer elects to amortize domestic research expenditures incurred in 2025 and later, no Indiana modification is permitted for these expenses.

Treatment of Pre-2025 Expenses Subject to Elective Federal Expensing

H.R. 1 Section 70302(f)(1) allows certain small businesses to make an election to retroactively claim domestic research expenditures in the year in which the expenses were incurred (“retroactive expensing”)

If a business makes the election to claim retroactive expensing, an affected taxpayer must amend their Indiana tax returns to report their newly-determined federal adjusted gross income as well as to back out any previously-claimed adjustments. For statute of limitations purposes, any amended returns filed to claim retroactive expensing for federal purposes are considered to be the result of adjustments made by the Internal Revenue Service.

For federal amended returns claiming retroactive expensing filed before November 1, 2025, these returns are considered to have a federal adjustment date of October 31, 2025. Any returns filed after October 31, 2025, will be considered to be federal adjustments made on the date of the amended federal return. If an amended federal return is not filed for a particular year but Indiana adjustments for specified research expenditures were made for that year, the statute of limitations for that year is determined by the year to which the expenses relate.

If a business does not make the election to claim retroactive expensing, Indiana will still permit the accelerated claim of expenses and require Indiana-specific addbacks and modifications in

conformity with Indiana law. No amended returns are required to report any adjustments except as specified in this bulletin.

If you have any questions concerning this bulletin, contact the Tax Policy Division at taxpolicy@dor.in.gov.

A handwritten signature in black ink that reads "M. Kevin Gulley". The signature is written in a cursive, flowing style.

M. Kevin Gulley
Commissioner
Indiana Department of Revenue