

The hidden time bomb in the tax code that's fueling mass tech layoffs

A decades-old tax rule helped build America's tech economy. A quiet change under Trump helped dismantle it



Illustration: Getty (Getty Images)

For the past two years, it's been a ghost in the machine of American tech.

Between 2022 and today, a little-noticed tweak to the U.S. tax code has quietly rewired the financial logic of how American companies invest in research and development. Outside of [CFO and accounting circles](#), almost no one knew it existed. "I work on these tax write-offs and still hadn't heard about this," a chief operating officer at a private-equity-backed tech company told Quartz. "It's just been so weirdly silent."

Still, the delayed change to a decades-old tax provision — buried deep in the 2017 tax law — has contributed to the loss of hundreds of thousands

of high-paying, white-collar jobs. That's the picture that emerges from a review of corporate filings, public financial data, analysis of timelines, and interviews with industry insiders. One accountant, working in-house at a tech company, described it as a "niche issue with broad impact," echoing sentiments from venture capital investors also interviewed for this article. Some spoke on condition of anonymity to discuss sensitive political matters.

Since the start of 2023, more than half-a-million tech workers have been laid off, according to [industry tallies](#). Headlines have blamed over-hiring during the pandemic and, more recently, [AI](#). But beneath the surface was a hidden accelerant: a change to what's known as Section 174 that helped gut in-house software and product development teams everywhere from tech giants such as Microsoft ([MSFT](#)) and Meta ([META](#)) to much smaller, private, direct-to-consumer and other internet-first companies.

Now, as a [bipartisan effort](#) to repeal the Section 174 change moves through Congress, bigger questions are surfacing: How did a single line in the tax code help trigger a tsunami of mass layoffs? And why did no one see it coming?

A tax break that built the modern tech economy

For almost 70 years, American companies could deduct 100% of qualified research and development spending in the year they incurred the costs. Salaries, software, contractor payments — if it contributed to creating or improving a product, it came off the top of a firm's taxable income.

The [deduction was guaranteed](#) by Section 174 of the IRS Code of 1954, and under the provision, R&D flourished in the U.S.

Microsoft was [founded in 1975](#). Apple ([AAPL](#)) [launched its first computer](#) in 1976. Google ([GOOGL](#)) [incorporated](#) in 1998. Facebook [opened to the general public](#) in 2006. All these companies, now among the most valuable in the world, developed their earliest products — programming tools, hardware, search engines — under a tax system that rewarded

building now, not later.

The subsequent rise of smartphones, cloud computing, and mobile apps also happened in an America where companies could immediately write off their investments in engineering, infrastructure, and experimentation. It was a baseline assumption — innovation and risk-taking subsidized by the tax code — that shaped how founders operated and how investors made decisions.

In turn, tech companies largely built their products in the U.S.

Microsoft's operating systems were coded in Washington state. Apple's early hardware and software teams were in California. Google's search engine was born at Stanford and scaled from Mountain View. Facebook's entire social architecture was developed in Menlo Park. The deduction directly incentivized keeping R&D close to home, rewarding companies for investing in American workers, engineers, and infrastructure.

That's what makes the politics of Section 174 so revealing. For [all the rhetoric](#) about bringing jobs back and making things in America, the first Trump administration's major tax bill arguably helped accomplish the opposite.

Undercutting the incentive structure

When Congress passed the [Tax Cuts and Jobs Act](#) (TCJA), the signature legislative achievement of President Donald Trump's first term, it slashed the corporate tax rate from 35% to 21% — a massive revenue loss on paper for the federal government.

To make the 2017 bill comply with Senate budget rules, lawmakers needed to offset the cost. So they added future tax hikes that wouldn't kick in right away, wouldn't provoke immediate backlash from businesses, and could, in theory, be quietly repealed later.

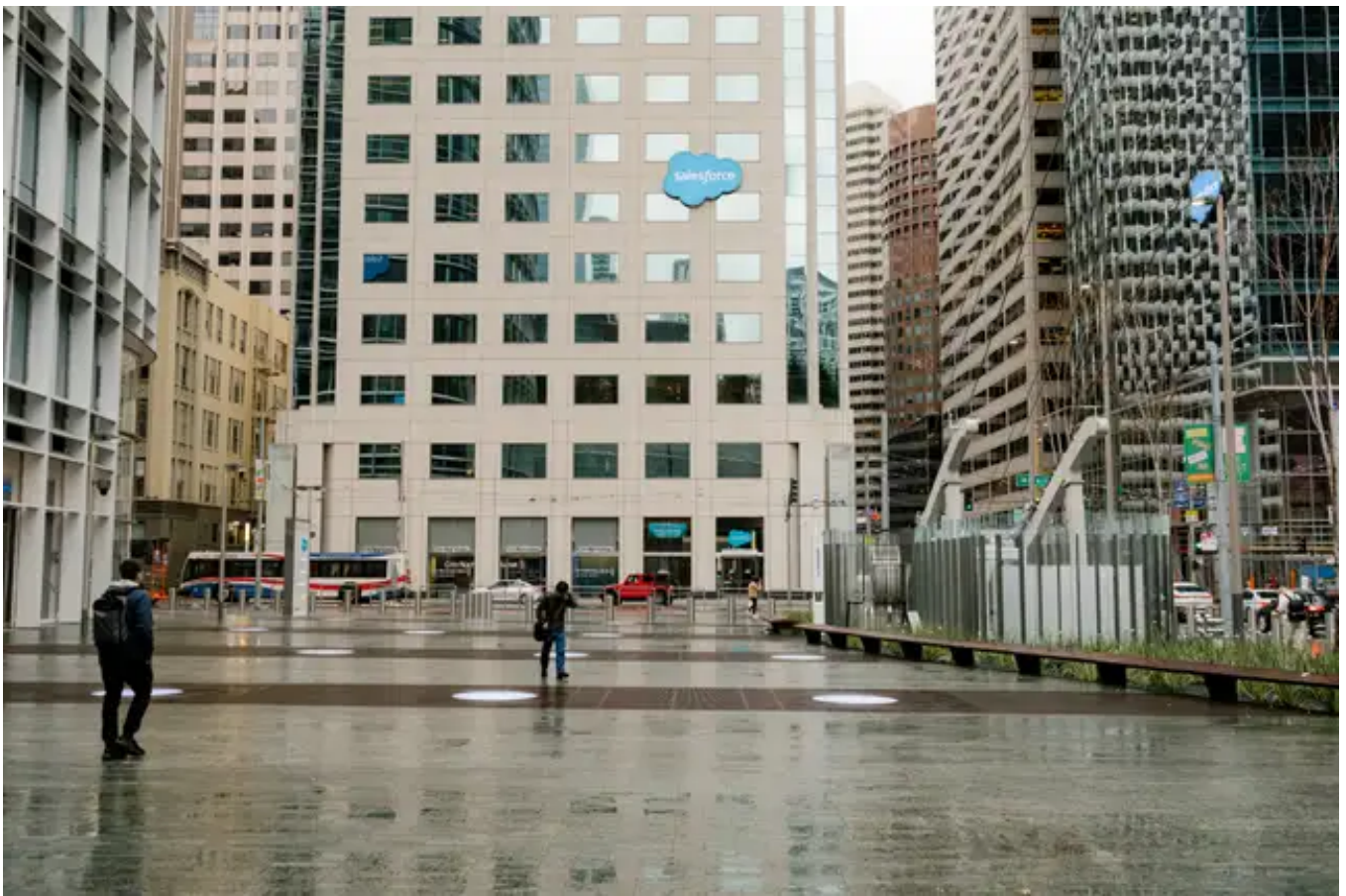
The delayed change to Section 174 — from immediate expensing of R&D to mandatory amortization, meaning that companies must spread the

deduction out in smaller chunks over five or even 15-year periods — was that kind of provision. It didn't start affecting the budget until 2022, but it helped the TCJA appear "deficit neutral" over the 10-year window used for legislative scoring.

The delay wasn't a technical necessity. It was a political tactic. Such moves are [common in tax legislation](#). Phase-ins and delayed provisions let lawmakers game how the Congressional Budget Office (CBO) — Congress' nonpartisan analyst of how bills impact budgets and deficits — scores legislation, pushing costs or revenue losses outside official forecasting windows.

And so, on schedule in 2022, the change to Section 174 went into effect. Companies filed their 2022 tax returns under the new rules in early 2023. And suddenly, R&D wasn't a full, immediate write-off anymore. The tax benefits of salaries for engineers, product and project managers, data scientists, and even some user experience and marketing staff — all of which had previously reduced taxable income in year one — now had to be spread out over five- or 15-year periods.

To understand the impact, imagine a personal tax code change that allowed you to deduct 100% of your biggest source of expenses, and that becoming a 20% deduction. For cash-strapped companies, especially those not yet profitable, the result was a painful tax bill just as venture funding dried up and interest rates soared.



Salesforce office buildings in San Francisco.

Photo: Jason Henry/Bloomberg (Getty Images)

The layoffs begin

It's no coincidence that Meta announced its "Year of Efficiency" [immediately after](#) the Section 174 change took effect. Ditto Microsoft laying off 10,000 employees in [January 2023](#) despite strong earnings, or Google parent Alphabet [cutting](#) 12,000 jobs around the same time.

Amazon ([AMZN](#)) also laid off almost 30,000 people, with [cuts focused](#) not just on logistics but on Alexa and internal cloud tools — precisely the kinds of projects that would have once qualified as immediately deductible R&D. Salesforce ([CRM](#)) [eliminated](#) 10% of its staff, or 8,000 people, including entire product teams.

In public, companies blamed bloat and AI. But inside boardrooms, spreadsheets were telling a quieter story. And [MD&A](#) notes — management's notes on the numbers — buried deep in 10-K filings recorded the change, too. R&D had become more expensive to carry.

Headcount, the leading R&D expense across the tech industry, was the easiest thing to cut.

In its [2023 annual report](#), Meta described salaries as its single biggest R&D expense. Between the first and second years that the Section 174 change began affecting tax returns, Meta cut its total workforce by almost 25%. Over the same period, Microsoft reduced its global headcount by about 7%, with cuts concentrated in product-facing, engineering-heavy roles.

Smaller companies without the fortress-like balance sheets of Big Tech have arguably been hit even harder. Twilio ([TWLO](#)) [slashed](#) 22% of its workforce in 2023 alone. Shopify ([SHOP](#)) (headquartered in Canada but with much of its R&D teams in the U.S.) [cut almost 30% of staff](#) in 2022 and 2023. Coinbase ([COIN](#)) [reduced headcount](#) by 36% across a pair of brutal restructuring waves.

Since going into effect, the provision has hit at the very heart of America's economic growth engine: the tech sector.

By market cap, tech giants dominate the S&P 500, with [the "Magnificent 7"](#) alone accounting for [more than a third](#) of the index's total value. Workforce numbers tell a similar story, with tech employing millions of Americans directly and supporting the employment of tens of millions more. As measured by GDP, [capital-T tech](#) contributes about 10% of national output.

It's not just that tech layoffs were large, it's that they were massively disproportionate. Across the broader U.S. economy, job cuts hovered around in low single digits across most sectors. But in tech, entire divisions vanished, with a [whopping 60% jump](#) in layoffs between 2022 and 2023. Some cuts reflected real inefficiencies — a response to over-hiring during the zero-interest rate boom. At the same time, many of the roles eliminated were in R&D, product, and engineering, precisely the kind of functions that had once benefitted from generous tax treatment under Section 174.

A crippling change even outside tech

Throughout the 2010s, a broad swath of startups, direct-to-consumer brands, and internet-first firms — basically every company you recognize from Instagram or Facebook ads — built their growth models around a kind of engineered break-even.

The tax code allowed them to spend aggressively on product and engineering, then write it all off as R&D, keeping their taxable income close to zero by design. It worked because taxable income and actual cash flow were often not quite the same thing under what's known as [GAAP](#) accounting practices. Basically, as long as spending counted as R&D, companies could report losses to investors while owing almost nothing to the IRS.

But the Section 174 change broke that model. Once those same expenses had to be spread out, or amortized, over multiple years, the tax shield vanished. Companies that were still burning cash suddenly looked profitable on paper, triggering real tax bills on imaginary gains.

The logic that once fueled a generation of digital-first growth collapsed overnight.

So it wasn't just tech experiencing effects. From 1954 until 2022, the U.S. tax code had encouraged businesses of all stripes to behave like tech companies. From retail to logistics, healthcare to media, if firms built internal tools, customized a software stack, or invested in business intelligence and data-driven product development, they could expense those costs. The write-off incentivized in-house builds and fast growth well outside the capital-T tech sector. This lines up with [OECD research](#) showing that immediate deductions foster innovation more than spread-out ones.

And American companies ran with that logic. According to government data, U.S. businesses reported about \$500 billion in [R&D expenditures](#) in 2019 alone, and almost half of that came from industries outside

traditional tech. The Bureau of Economic Analysis estimates that this sector, the broader digital economy, [accounts](#) for another 10% of GDP.

Add that to core tech's contribution, and the Section 174 shift has likely touched at least 20% of the U.S. economy.

The result? A tax policy aimed at raising short-term revenue effectively hid a time bomb inside the growth engines of thousands of companies. And when it detonated, it kneecapped the incentive for hiring American engineers or investing in American-made tech and digital products.

It made building tech companies in America look irrational on a spreadsheet.

Repeal may come too late

A bipartisan group of lawmakers is [pushing to repeal](#) the Section 174 change, with business groups, CFOs, crypto executives, and venture capitalists lobbying hard for retroactive relief. But the politics are messy. Fixing 174 would mean handing a tax break to the same companies many voters in both parties see as symbols of corporate excess. Any repeal would also come too late for the hundreds of thousands of workers already laid off.

And of course, the losses don't stop at Meta's or Google's campus gates. They ripple out. When high-paid tech workers disappear, so do the lunch orders. The [house tours](#). The contract gigs. The spending habits that sustain entire urban economies and thousands of other jobs. Sandwich artists. Rideshare drivers. Realtors. Personal trainers. House cleaners. In tech-heavy cities, the fallout runs deep — and it's still unfolding.

Washington is now poised to pass a second Trump tax bill — one packed with more [obscure provisions](#), more [delayed impacts](#), more quiet redistribution. And it comes as analysts are only just beginning to understand the real-world effects of the last round.

The Section 174 change "significantly increased the tax burden on

companies investing in innovation, potentially stifling economic growth and reducing the United States' competitiveness on the global stage," according to the tax consulting firm KBKG.

Whether the U.S. will reverse course — or simply adapt to a new normal — remains to be seen.