

March 31, 2022

The Honorable Charles Schumer  
Majority Leader  
United States Senate

The Honorable Mitch McConnell  
Minority Leader  
United States Senate

The Honorable Nancy Pelosi  
Speaker  
United States House of Representatives

The Honorable Kevin McCarthy  
Minority Leader  
United States House of Representatives

Dear Congressional Leaders:



For almost 70 years, American innovation has been incentivized in part by a tax code permitting the immediate write-off (deduction against income) of qualifying Research and Development (R&D) expenditures in the year an investment is made. This tax provision has helped promote research that has led to countless inventions, improvements, and technological leaps that in turn has driven America's technological superiority and sustained economic growth. However, the immediate write-off ended on December 31, 2021. As of January 2022, the *Tax Cuts and Jobs Act of 2017* (TCJA) requires qualifying R&D expenses conducted in the United States to be amortized over five years instead of one year—meaning that companies investing in R&D can only make deductions on 20% of those expenses per year. We respectfully request immediate relief from the R&D amortization by including a four-year delay, retroactive to January 1, 2022, in the final version of the Bipartisan Innovation Act or any other legislative vehicle advancing through Congress.

Requiring companies to amortize R&D expenses over five years is a significant effective tax increase. Further, it significantly undermines one of the foundational drivers of American technological progress. The United States was the first country to establish an R&D tax incentive and, as recently as the mid-1990s, offered the most generous R&D tax incentive in the world. Since the 20% R&D amortization became effective on January 1, 2022, the United States is one of the only developed nations to require amortization of R&D expenses. With a much smaller tax incentive, U.S. R&D investments will decline, impacting not only large companies, but also carrying the likelihood of a chilling effect on small innovative businesses, university funded R&D, training of next generation scientists, and social benefits from private sector R&D to others in the economy.

Meanwhile, China has extended through 2023 its super deduction for R&D expenses for manufacturing companies to 200% of actual R&D expenses incurred. That means a company that undertakes R&D in the United States will have less money to invest in additional R&D in the US, while companies who

spend money on R&D in China will have even more money to continue to invest due to encouragement by China's generous incentive.

According to estimates from the Joint Committee on Taxation (JCT), failing to delay the amortization provision could cost companies \$29.1 billion in just the first nine months of 2022,<sup>i</sup> significantly and negatively affecting U.S. R&D and innovation. An Ernst and Young economic study of a four-year delay of the 20% limit found that it would result in a loss of over 100,000 jobs over the first five years and over 400,000 jobs could be directly and indirectly lost over the first ten years.<sup>ii</sup>

Tax incentives spur innovation and promote R&D in the United States, and encourage companies to invest domestically, not offshore.<sup>iii</sup> Failing to preserve a 100% write-off will discourage R&D investment in the United States and hurt U.S. innovation, especially notable when our economy is still recovering from the COVID pandemic.

Supply chains remain tight, and the nation faces threats from competitors focused on dethroning the U.S. as a global innovation and technology leader. If not reversed, this anti-competitive change will significantly affect the defense industrial base, increasing costs and disincentivizing investments in national security.

It is imperative Congress act expeditiously to reverse this harmful change and modify the TCJA before it damages America's research enterprise and the engine of American growth. This will restore pro-innovation tax policy and ensure our warfighters have the cutting-edge technology needed.

Thank you for your attention to this crucial issue. We look forward to continuing to work with you on this matter.

Yours respectfully,

- Aerospace Industries Association (AIA)
- Center for Procurement Advocacy (CPA)
- Computing Technology Industry Association (CompTIA)
- Information Technology Industry Council (ITI)
- National Defense Industrial Association (NDIA)
- National Small Business Association (NSBA)
- Professional Services Council (PSC)

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<sup>i</sup> JOINT COMMITTEE ON TAXATION December 18, 2017 JCX-67-17

<sup>ii</sup> "Ey – Impact of the Amortization of Certain R&D Expenditures on R&D Spending in the United States." R&D Coalition, <https://investinamericasfuture.org/ey-impact-of-the-amortization-of-certain-rd-expenditures-on-rd-spending-in-the-united-states/>.

<sup>iii</sup> *Federal Tax Gap: Size, Contributing Factors, and the ...* <https://crsreports.congress.gov/product/pdf/IF/IF11887>.