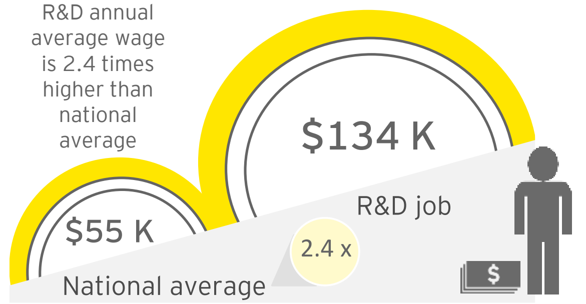
Impact of TCJA provision spreading out the R&D deduction on R&D spending, wages, and jobs in the United States

Since 1954, the United States has allowed the immediate write-off of qualifying R&D expenditures to promote R&D spending. The Tax Cuts and Jobs Act significantly curtailed this provision: starting in 2022, R&D conducted in United States must be amortized over 5 years with other qualifying R&D amortized over 15 years, impacting R&D investment. Businesses should be permitted to continue to immediately deduct this investment.

R&D supports high-paying jobs



Change in R&D spending

First five years

Annual impact

-$4.1 billion

R&D spending

$4.1b of R&D supports

$5.8 billion

of labor income

67,700

jobs

Second five years

Annual impact

-$10.1 billion

R&D spending

$10.1b of R&D supports

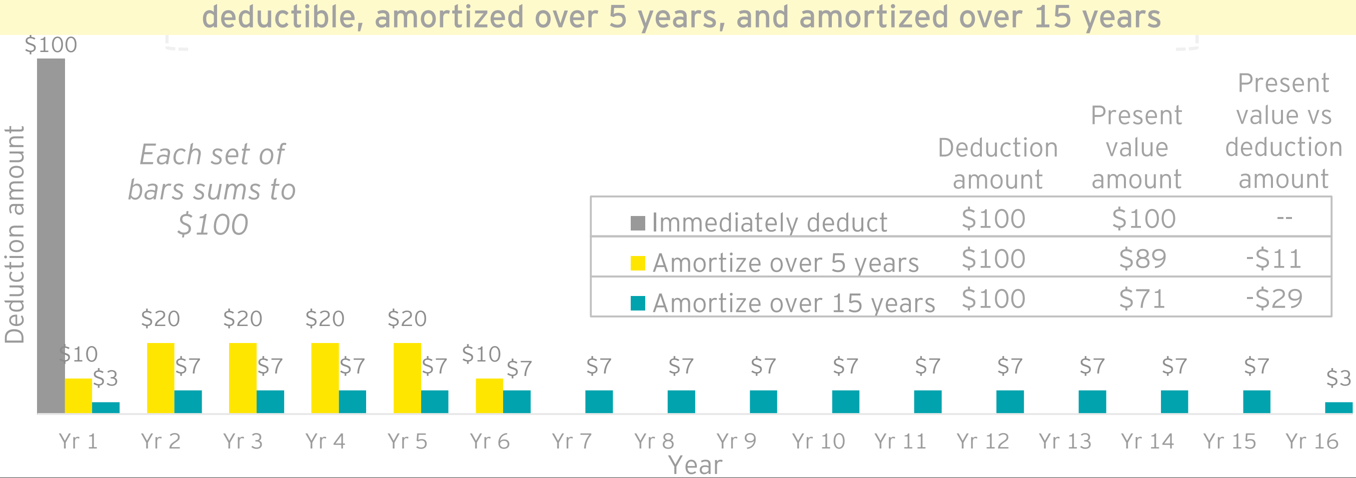
$14.4 billion

of labor income

169,400

jobs

Comparison of $100 of qualifying R&D spending that is immediately deductible, amortized over 5 years, and amortized over 15 years



	Deduction amount	Present value amount	Present value vs deduction amount
Immediately deduct	$100	$100	--
Amortize over 5 years	$100	$89	-$11
Amortize over 15 years	$100	$71	-$29

Note: Starting in 2022, R&D conducted in United States must be amortized over 5 years with other qualifying R&D amortized over 15 years. Present value of deduction for $100 of qualifying R&D spending assumes that amortization begins with the midpoint of the tax year in which qualifying R&D expenditures are paid or incurred, a 5% discount rate, and that a taxpayer is in a taxable position before and after taking the deduction. First five year and second five year impacts are scaled to the size of the 2018 US economy.
Source: EY, *Impact of the amortization of certain R&D expenditures on R&D spending in the United States*, June 2019.

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