R&D COALITION

R&D Drives Innovation and Supports Well-Paying Jobs

Starting in 2022, the tax code will make it more expensive for companies to undertake research and development in the U.S. by no longer allowing companies to immediately deduct their R&D expenses.

On March 15, 2021, Senators Maggie Hassan (D-NH), Todd Young (R-IN), Catherine Cortez Masto (D-NV), Rob Portman (R-OH) and Ben Sasse (R-NE) introduced S. 749, the American Innovation and Jobs Act, a bipartisan bill to ensure that the tax code continues to support R&D in the U.S. The ability to deduct R&D expenses in the same year they are incurred is critical to maintaining our nation's competitive edge.

Key facts

- In 2018, the U.S. spent more than half a trillion dollars ($580 billion) on R&D with the vast majority coming from the private sector.[1]
- R&D investments in the U.S. support millions of American jobs every year. For every $1 billion in R&D spending, 17,000 jobs are supported in the U.S.[2] R&D-related jobs pay an average annual wage of nearly $135,000.[3]
- Over the course of the first five years, 23,400 jobs would be lost due to the amortization of R&D expenses, with the number of lost jobs rising to 58,600 over the following five years.[4]

Background

Since 1954, Section 174 of the Internal Revenue Code has allowed companies to deduct qualified R&D expenses from their taxable income in the same year in which they are incurred. However, beginning in 2022, the tax code will require businesses to amortize, or gradually write off, R&D expenses over five years in the U.S. with other qualifying R&D amortized over 15 years, impacting R&D investment.

According to the Congressional Budget Office, amortizing R&D expenses "will reduce the incentive to invest in R&D."[5]

R&D Coalition

The R&D Coalition is a partnership among small, medium and large American companies and business associations with a presence in all 50 states. Through their ongoing R&D investments, coalition members continue to have a uniquely positive impact on the U.S. economy, employing millions of American workers and representing all major U.S. industries and economic sectors, including, among others, manufacturing, agriculture, pharmaceuticals, biotechnology, software and information technology, energy and telecommunications.

[1] National Science Foundation, National Center for Science and Engineering Statistics, InfoBrief NSF 20-309 (January 2020).

[2] EY, Impact of the Amortization of Certain R&D Expenditures on R&D Spending in the U.S. at 12 (September 2019).

[3] Id. at ii.

[4] Id. at i.

[5] Congressional Budget Office, How Taxes Affect the Incentive to Invest in New Intangible Assets, Publication 54648 at 2 (Nov. 15, 2018).