R&D COALITION

July 23, 2021

The Honorable Charles Schumer
Senate Majority Leader
United States Senate
S-221 U.S. Capitol
Washington, D.C. 20515

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
H-232 U.S. Capitol
Washington, DC 20515

The Honorable Mitch McConnell
Senate Republican Leader
United States Senate
S-230 U.S. Capitol
Washington, D.C. 20515

The Honorable Kevin McCarthy
House Republican Leader
U.S. House of Representatives
H-204 U.S. Capitol
Washington, DC 20515

Dear Majority Leader Schumer, Republican Leader McConnell, Speaker Pelosi and Republican Leader McCarthy:

On behalf of the millions of employees represented by the companies and related trade organizations which comprise the R&D Coalition, we strongly urge you to ensure that the tax code continues to support innovation and high-paying U.S. research and development (R&D) jobs by preventing a harmful change to the tax treatment of R&D expenses from going into effect on January 1, 2022.

Since 1954 companies of all sizes, all across the supply chain, and in major sectors from aerospace to electronics, from automobiles to pharmaceuticals and from manufacturing to information technology have been able to deduct R&D expenses in the year in which they are incurred. However, beginning next year the long-standing tax policy of providing an immediate deduction for R&D expenses will be replaced by a requirement to deduct or amortize those expenses over several years which would significantly reduce the after-tax cash flow for R&D activities. As a result, R&D would become more expensive to undertake in the U.S. which would undermine our nation's economic recovery by hurting jobs and economic growth, as well as needlessly handicapping the ability of the U.S. to remain a global leader in innovation. Moreover, retroactively addressing the amortization requirement would fail to provide the necessary certainty to plan for long-term R&D projects and negatively impact on-going cash flow and financial reporting. Accordingly, we urge you to repeal this harmful tax change **this year** and allow companies to continue to immediately deduct R&D expenses.

R&D Amortization Requirement Would Lead to U.S. Job Losses, Lower Wages and Less Innovation

Private sector R&D plays a critical role in the economy, accounting for over 3% of GDP in 2019. Out of the estimated $656 billion U.S. spending on R&D, more than 70% of the total ($486 billion) was from the private sector. According to an EY study, R&D spending strongly benefits American workers, with U.S. R&D-related jobs paying, on average, $135,000 annually.[1] Moreover, for every

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

$1 billion in R&D spending 17,000 jobs are supported. However, according to the same EY study, the amortization requirement would reduce R&D spending, jobs and wages. In terms of jobs, the study finds that over 20,000 U.S. R&D jobs would be lost in each of the first five years, with nearly 60,000 lost jobs in each of the following five years.

R&D Amortization Would Hurt U.S. Competitiveness

Currently, the U.S. ranks 27 out of 37 OECD countries with respect to tax incentives for R&D and this is without taking into account the amortization requirement which would only further push the U.S. behind its peers. Moreover, if the pending change to the tax treatment of R&D is allowed to occur, the U.S. would join Belgium as one of only two major economies that does not provide for the immediate deductibility of R&D expenses. At the same time, this change would mark a step backward in the competitive battle with China for innovation leadership, a country which currently provides a super deduction of up to 200% for R&D expenses.

Preserving Immediate Deductibility of R&D Expenses Has Strong Bipartisan Support

Allowing companies to continue to immediately deduct their R&D expenses as they have been able to do so for the past 67 years has strong bipartisan and bicameral support. Earlier this year House Ways and Means Committee members John Larson (D-CT) and Ron Estes (R-KS) introduced H.R. 1304, the American Innovation and R&D Competitiveness Act, legislation that would repeal the amortization requirement while Senate Finance Committee members Maggie Hassan (D-NH) and Todd Young (R-IN) introduced similar legislation, S. 749, the American Innovation and Jobs Act.

In addition, we would note the Biden Administration has expressed support for fixing this harmful provision. In response to a question during a recent Senate Finance Committee hearing, Treasury Secretary Yellen noted that "promoting innovation is a critical priority for President Biden, and it is a very important contributor to productivity growth in this country. And we're absolutely looking for ways to do that, and certainly continuing to allow firms to expense R&D rather than shifting to amortizing could be one very effective way to bring that about."

In closing, we look forward to working with you to ensure that the tax code continues to incentivize R&D. Doing so would help continue to support economic growth, high-paying jobs, and U.S. competitiveness.

Sincerely,

Sharon Heck (Intel Corporation)
Chair, R&D Coalition

cc: Chairman Wyden, Ranking Member Crapo, Chairman Neal, Ranking Member Brady
Chairman Reed, Ranking Member Inhofe, Chairman Smith, Ranking Member Rogers

Brian Deese, Director, National Economic Council