THE HILL

Congress must act now to secure America's R&D leadership

BY ARIC NEWHOUSE, OPINION CONTRIBUTOR — 03/04/22 07:30 AM EST

Modern manufacturing touches every aspect of our daily lives: from the lifesaving COVID-19 vaccines to the foods we consume, from our smartphones and computers to our vehicles and the fuels that power them—and so much more. We take innovations like these for granted, but so many of them took years, sometimes decades, of hard work and research and development to produce. Indeed, every day, we enjoy the benefits of the private sector-led R&D that manufacturers undertake in America.

In modern times, the United States has been the undisputed global leader in R&D. The vast majority of that R&D is conducted by the private sector—and nearly 60 percent of that is done by manufacturers in the United States, driving innovation and incredible technological progress.

But that progress is now at risk, and along with it, America's standing in the world, due to a harmful change in the tax code. For decades, if a manufacturer spent money on R&D in a given year, the company could deduct that amount, reducing its taxable income in that year. But starting this year, that manufacturer will not be able to deduct R&D spending right away. Instead, it will have to be spread out—or amortized—over a course of years.

In practical terms, that means a manufacturing company that spends, for example, 30 percent of its income on R&D in the United States to develop innovative and new products could see its annual tax bill grow by more than 43 percent. That, in turn, means less money for R&D and less money for paychecks and new hires. And that is why manufacturers want to see this tax provision fixed.

Why should manufacturers get to deduct R&D in the first place? It comes down to two main reasons: jobs and competitiveness.

A study from the accounting firm Ernst & Young found that the reduced R&D spending resulting from the tax change would lead to 23,400 fewer R&D jobs in the first five years and nearly 60,000 in the following five years. If we value these high-paying jobs that produce life-changing technologies and innovations, then our tax code should reflect it.

Second, on competitiveness, it’s important to remember that the United States doesn’t exist in a vacuum. The United States has a long tradition of leading the world in R&D, from health care to connected technology and everything in between. At the same time, we are part of a complex global economy, and other countries, particularly China, are constantly trying to out-compete us.

In fact, as a result of this change, the U.S. is now only the second industrialized country to require companies to amortize their R&D spending (the other being Belgium). Do we want the next big breakthrough in medicine, information technology, transportation or sustainability to be made in America—or in another country? We should not give up that mantle of leadership—or let the next Silicon Valley develop overseas.

R&D has never been more important, considering the rapid rate of technological advancement. To meet customer demands, manufacturers face increased complexity, costs and risks as features and functionality requirements are in a constant state of change. This is positive change, but it means that now is the time to maintain our national commitment to R&D, not abandon it.

Manufacturers invested nearly $300 billion in R&D in 2020, the most recent year for which data is available. That level of investment reflects years of planning for R&D and underscores the need for Congress to act now on bipartisan Senate and House legislation to reverse this harmful tax change. A broad coalition of manufacturers, as well as other national and regional groups representing all types of businesses of all sizes, have come together to call on Congress to move swiftly. Doing so would allow companies to continue to deduct R&D spending immediately, which would support jobs, manufacturing, innovation and continued American leadership.

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