Roll Call

Shift in tax treatment for R&D expenses a hit to innovation

While other countries are increasing incentives for innovation, the U.S. is going backwards

By [Sharon Heck]
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Innovation leadership in the United States is at serious risk with the 2022 shift in income tax treatment of research and development (R&D) expenses.

For the first time in nearly 70 years, business cash flow is negatively affected by the inability to immediately write-off their R&D expenses in the year incurred. As of the new year, businesses must instead forgo the immediate write-off of their current year R&D investments. This tax change makes the U.S. a global outlier and puts a constraint on innovation and high-paying R&D jobs at a time when the U.S. needs to accelerate investment in R&D. Congress must move quickly to ensure that our tax code continues the long policy position of supporting U.S. innovation.

According to estimates from the Joint Committee on Taxation, Congress' nonpartisan tax scorekeeper, the amortization requirement in the 2017 tax overhaul law could cost businesses $29.1 billion in just the first nine months of 2022 alone. Unless reversed, one study concluded that estimated R&D spending will fall by $4.1 billion annually, costing more than 23,000 high-paying U.S. R&D jobs over a five-year period.

The same study found that every $1 billion spent by businesses on research and development supports 17,000 jobs. Requiring the amortization of R&D expenses is an extremely time-sensitive problem for the financing of R&D. Removal of more than $8 billion of R&D cash flow, for the first quarter alone, is a zero-sum game in terms of the R&D spend for that quarter. The effect on the economy will be sizable.

While U.S. trading partners have been maintaining or increasing R&D incentives, with an eye on investment and the associated jobs, America would be tying one hand behind its back.

This change further widens the U.S. global competitiveness gap in supporting innovation, as the U.S. becomes one of only two developed countries without an immediate expensing R&D tax policy. Removing this pro-R&D policy comes at a time when the U.S. already ranks 27 out of 37 OECD countries with respect to R&D tax incentives. If this change should remain in place, the U.S. will continue to fall further behind its peers in innovation, damaging our competitiveness and economic prospects.

Finally, the reversal of the long-standing tax treatment of R&D expenses also has national security implications. The National Science and Technology Council recently concluded that "ensuring national security and resilience is critical for the United States, especially as other nations dramatically increase their R&D expenditures" and that sustained R&D investments "are essential to ensure that the United States remains able to secure and protect the American people in the face of this increased competition." Any reduction in R&D spending because of the removal of immediate expensing of R&D costs would make this task more difficult.

Thankfully, overwhelming bipartisan support currently exists in Congress to roll back this R&D tax change. Reps. John Larson, D-Conn., and Ron Estes, R-Kan., and Sens. Maggie Hassan, D-N.H., and Todd Young, R-Ind., are leading efforts to repeal R&D expense amortization permanently.

In fact, nearly 100 bipartisan members of the House and 26 senators support immediate expensing of R&D. Unfortunately, notwithstanding this support, Congress was unable to act by the end of 2021 to stop this harmful shift. Now that we are in 2022, time is of the essence. With innovation and jobs at stake, it is imperative that Congress move swiftly on the first available legislative vehicle to restore long-standing pro-R&D tax policy that has enabled the U.S. to lead the world in innovation.

Sharon Heck is the corporate vice president of finance and the chief tax officer at Intel, and chair of the R&D Coalition. The coalition is a partnership of American companies and business associations committed to advancing public policies that encourage investment in U.S.-based research and innovation.