



February 17, 2023

The Honorable Janet L. Yellen
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Shalanda Young
Director
Office of Management and Budget
725 17th St., NW
Washington, DC 20503

Dear Secretary Yellen and Director Young,

On behalf of the millions of employees represented by the companies and related trade organizations which comprise the R&D Coalition, we strongly urge that President Biden's Fiscal Year 2024 budget propose restoring the immediate deductibility of research and development ("R&D") expenses. According to the National Science Foundation, in 2021, the private sector spent \$612 billion, or more than 75% of total R&D spending, with manufacturers performing 55% and small businesses 15% of all private sector R&D, respectively. A restoration of the immediate deductibility of R&D expenses would ensure that the tax code continues to enable companies in the U.S. to innovate, grow, create well-paying jobs, and effectively compete in the global economy. It would also help ensure a strong national security.

For nearly 70 years, the tax code has supported innovation by allowing companies to deduct R&D expenses in the year incurred. However, the tax treatment of R&D expenses dramatically changed at the beginning of 2022 with companies now required to amortize these expenses over several years. Doing so makes R&D more expensive which the Congressional Budget Office has warned will "reduce the incentive to invest in R&D."¹ We would note that according to the latest GDP report, private sector R&D investment declined in the third and fourth quarters last year, the first consecutive quarterly decline in private sector R&D investment in more than seven years.

In addition to threatening R&D spending, the harmful R&D amortization requirement puts at risk jobs and labor income. According to a recent economic analysis, the R&D tax change will result in a loss of over 260,000 U.S. jobs and lead to an \$82 billion loss in GDP in 2023 if the harmful change is not reversed quickly.² Another study shows that for every \$1 billion in R&D spending, 17,000 jobs are supported in the U.S. with R&D-related jobs paying an average annual wage of nearly \$140,000.³ Moreover, this change comes at a time of increasing global competition for R&D and if not reversed would jeopardize America's global leadership in innovation. Finally, the amortization requirement poses a threat to our national security with the National Science and Technology Council noting that R&D investments "are essential to ensure that the United States remains able to secure and protect the American people in the face" of other countries increasing support for R&D.⁴

Permanently and seamlessly reversing the amortization provision strongly aligns with the Biden Administration's goal to drive investment in research and grow high-wage and high-skilled jobs. There is strong bipartisan support for restoring R&D full expensing. In the 117th Congress, the American Innovation and R&D Competitiveness Act, H.R. 1304, and its Senate companion, S. 749, the American Innovation and Jobs Act, had the bipartisan support of 115 House members (54 Democrats and 61 Republicans) and 36 Senators (18 Democrats and 18 Republicans). In addition, the House of Representatives recognized the

¹ Congressional Budget Office, How Taxes Affect the Incentive to Invest in New Intangible Assets, Publication 54648 at 2 (Nov. 15, 2018).

² National Association of Manufacturers, New Data: Taxing R&D Will Cost U.S. More Than 260,000 Jobs Next Year If Congress Doesn't Act, at https://www.nam.org/new-data-taxing-rd-will-cost-u-s-more-than-260000-jobs-next-year-if-congress-doesnt-act-19948/?stream=series-press-releases&utm_source=link&utm_medium=social.

³ EY, Impact of the Amortization of Certain R&D Expenditures on R&D Spending in the U.S. (2019),

<https://investinamericasfuture.org/ey-impact-of-the-amortization-of-certain-rd-expenditures-on-rd-spending-in-the-united-states/>.

⁴ Subcommittee on Research and Development Infrastructure, Committee on Science and Technology Enterprise of the National Science and Technology Council, National Strategic Overview for Research and Development Infrastructure at 23 (October 2021).

importance of reversing the amortization provision by including a four-year delay in the Build Back Better Act passed on November 19, 2021. An identical provision was included in the Senate substitute released on December 11, 2021. We would note that the President's Fiscal Year 2023 budget included by reference the Build Back Better Act's four-year delay. Finally, on May 4, 2021, the Senate voted 90-5 to preserve R&D full expensing.

For these reasons, we respectfully request that the Administration continue its support for the restoration of the immediate deductibility of R&D expenses as part of the President's budget. Failing to reverse the amortization requirement would not only undermine a key pillar of President Biden's economic agenda – robust investments in R&D – but the innovation that supports high-wage R&D jobs and growth in the U.S. as well as our nation's future competitiveness and national security. The R&D Coalition looks forward to working with the Administration to ensure the tax code continues to support R&D.

Sincerely,



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

CC: Lael Brainard, National Economic Council