R&D COALITION

March 11, 2022

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

The Honorable Brian Deese
Director of the National Economic Council
Office of the White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Secretary Yellen and Director Deese,

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 2023 budget restore the immediate deductibility of R&D expenses, which has existed for almost seven decades. According to the latest National Science Foundation statistics, in 2020, the private sector spent $532 billion or more than 75% of total R&D spending with small businesses alone accounting for about 15% of all private sector R&D investments. R&D spending accounts for 3.4% of America's gross domestic product ("GDP"). The accounting firm, Ernst & Young (EY) , concluded in a study, for every $1 billion in R&D spending, 17,000 jobs are supported in the U.S. with R&D investments supporting R&D-related jobs paying an average annual wage of nearly $135,000. The ability to invest in R&D is critical to a strong U.S. economy.

Up until January 1st of this year, companies of all sizes, all along 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 incurred them. That tax treatment dramatically changed at the start of 2022 with companies now required to amortize or deduct these expenses over several years. Doing so reduces the after-tax cash flow for R&D activities and drives down the rate of return on R&D investment. In effect, private sector R&D becomes more expensive resulting in reduced R&D spending, labor income, and jobs. In fact, the EY study also found that due to amortization over 20,000 R&D jobs will be lost in each of the first five years, with nearly 60,000 lost jobs in each of the following five years. Finally, at a time of increasing global competition for R&D, if amortization is unchanged, the U.S. will end up with the worst treatment of R&D expenses globally.

Reversing the amortization provision and its harmful effect on cash flow strongly aligns with the Biden Administration's goal to drive investment in research and grow high-wage and high-skilled jobs. There is strong bicameral and bipartisan support for this important economic issue. The American Innovation and R&D Competitiveness Act, H.R. 1304, and its Senate companion, S. 749, the American Innovation and Jobs Act, are buttressed by the support of 98 House members and 26 Senators. In addition, the House of Representatives recognized the importance of reversing the amortization provision by including a seamless four-year delay in the Build Back Better Act passed on November 19, 2021. An identical provision is included in the Senate substitute released on December 11, 2021.

Given the broad, bipartisan support from Congress and alignment with President Biden's desire to encourage R&D in the U.S., we respectfully request the Administration restore the immediate deductibility of R&D expenses as part of the President's budget. Failing to reverse the adverse tax treatment of R&D would not only undermine a key pillar of President Biden's recovery agenda – robust investments in R&D – but the innovation that supports high-wage R&D jobs in the U.S. We urge the Administration to support Congressional action to reverse amortization on the earliest available legislative

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vehicle. The R&D Coalition looks forward to working with the Administration and Congress to ensure the tax code continues to support R&D and the ability of the U.S. to remain a global leader in innovation.

Sincerely,

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