R&D COALITION

March 29, 2021

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 Madam Secretary 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 2022 budget preserve the long-standing, immediate deductibility of R&D expenses. In 2018, the private sector spent $422 billion or more than 70% of total R&D spending with small businesses alone accounting for about 15% of all private sector R&D investments. 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.

Since 1954, 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 are incurred. Starting in 2022, however, companies will be required to amortize or deduct these expenses over a number of years. Doing so would reduce the after-tax cash flow for R&D activities and drive down the rate of return on R&D investment. In effect, private sector R&D would become more expensive resulting in harmful outcomes. According to an Ernst & Young study, the amortization requirement will reduce R&D spending, labor income and jobs. In fact, the study finds that 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, the U.S. will end up as one of only two developed countries with such a policy.

As the Biden Administration advances its economic recovery agenda, reversing the harmful amortization provision would strongly align with its goal to drive investment in research and grow high-wage and high-skilled jobs. In outlining the Build Back Better plan on January 14, 2021, President Biden emphasized the importance of robust R&D activities as a basis for economic recovery by stating: "Imagine historic investments in research & development to sharpen America's innovative edge in markets where global leadership is up for grabs, markets like battery technology, artificial intelligence, biotechnology, and clean energy."

In order to help secure America's leadership with respect to emerging technologies it is essential that the tax code continues to incentivize innovation by allowing for the immediate deductibility of R&D expenses as has been the case for the last 67 years. Failing to address 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.

In closing, we would like to note the strong bicameral and bipartisan support for repealing the amortization provision with the recent introduction of H.R. 1304, the American Innovation and

R&D Competitiveness Act and S. 749, the American Innovation and Jobs Act. The R&D Coalition looks forward to working with your 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