

Reinstate the Research & Development Deduction

Problem:

Starting in 2022, the *2017 Tax Cuts and Jobs Act (TCJA)* requires businesses to amortize Research and Development (R&D) expenses over a five-year period. For decades, American businesses have been allowed to deduct R&D expenses in the year in which they were incurred, a clear recognition of the importance of these expenditures for our nation's long-term economic growth and competitiveness. This change will cause ripple effects in economic output and tie the hands of some of the most innovative and high-growth small firms in the nation.

- While many provisions of the 2017 Tax Cuts and Jobs Act (TCJA) provided significant relief for small businesses, at least temporarily, the R&D amortization language is a perfect example of the solution creating a problem.
- Now, instead of being able to fully deduct related R&D expenses in the incurred year, small businesses must spread that deduction out over a five-year period.
- This change will lead to a near-term reduction in R&D related jobs and essentially make R&D activities more expensive for U.S. firms.
- The ability to immediately deduct R&D expenses is especially important for small firms, many of which are early-stage high-growth companies that are not yet making a profit. The move to five-year amortization will further limit their ability to attract investment and succeed.
- For companies in the Small Business Innovation Research (SBIR) program, this change could be especially devastating. While the SBIR funding for the research will be counted as taxable income in the year it is received, the matching expenses will need to be amortized over five years, leaving a potentially catastrophic cash crunch that may force many companies to withdraw from the program, and will certainly limit their ability to make other near-term investments.

Solution:

Lawmakers should act immediately to reverse this extremely problematic change to a five-year R&D amortization. Our political leaders must do everything in their power to ensure that our tax laws support small-business growth and economic innovation. It is not too late to reverse this self-induced injury.