INSIGHTS. CONNECTIONS. EXPERTISE.

The Technology Councils of North America (TECNA) represents more than 65 technology business-serving councils and serves as the collective voice for regional technology organizations. Our members represent 22,000 small- to medium-sized technology companies across North America. Many of our members' companies are startups and are heavily dependent on a thriving ecosystem of investment capital and acquisitions. TECNA applauds the recent passage of H.R. 7024, the Tax Relief for American Families and Workers Act, legislation that repeals the harmful R&D amortization provisions that went into effect in 2022.

The Issue

For nearly 70 years, American businesses have been permitted to deduct 100 percent of R&D expenses from taxable income in the year those expenses were incurred. This favorable tax treatment promoted innovation by powerfully incentivizing critical investments in research and technological advancement. Those investments led to countless scientific breakthroughs, powered economic growth, and produced significant commercial and military advantages for the United States.

In 2022, companies were unexpectedly required to amortize R&D costs over five years instead of in the year in which the costs were incurred. This change resulted in a substantial increase in federal tax liabilities for many businesses, which harmed their ability to invest and grow. Companies faced difficult choices in order to pay the new tax obligation, such as entering in tax repayment plans, borrowing against homes, incurring credit card debt, dipping into retirement or savings, hiring freezes, suspending projects, and laying off valuable staff. Weathering a second year of this could be catastrophic. In some cases, this could mean laying off more staff, filing for bankruptcy or closing the business.

Impact on Industry

- Since amortization took effect in 2022, the rate of growth of R&D spending has slowed dramatically. After growing an average of 6.6% over the previous five years, R&D spending **actually declined** over the last 12 months.
- In the first year following its passage, the cash tax cost to companies in 2022 from this change was **$40 billion**. Failure to fix amortization is the equivalent of increasing the corporate tax rate by 1.5%-2.0%.

Impact on Small Business and Innovation Community

- Small- and medium-sized businesses are now laying off workers to account for the additional tax liability. On October 24, the Wall Street Journal published a story detailing how some businesses have laid off 35%-40% of their workforce due to the need to amortize research expenses.

- The nation's startups are disproportionately impacted, as they invest heavily in the development of new products or services. A tax liability that is substantial and unexpected can be devastating for new companies earning little income in the crucial early years. Indeed, for many startups across the country, the required amortization of R&D investments can be fatal, despite the fact that startups are disproportionately responsible for the innovations that drive productivity growth and economic growth, and account for virtually all net new job creation.

Impact on Global Competitiveness

- The United States is one of only two developed countries with R&D amortization rather than allowing for an immediate deduction, making it an even less attractive place to invest in and conduct R&D.

- Our strategic competitors know this and are taking advantage of it. In fact, 17 countries provide a deduction that is more than 100% of eligible R&D expenses. China, for example, haspermanently expanded its deduction for R&D expenses, allowing a first-year deduction that is 20 times greater than the first-year deduction for the same investment in the United States. In other words, a manufacturing company in China that spends $100 on R&D gets to deducts $200.

- R&D amortization is especially damaging given the strategic imperative of preserving America's innovation leadership in the face of heightened global competition, particularly from China. For decades, China has worked relentlessly to wrest the mantle of global innovation leadership from the United States. The Belt and Road global infrastructure initiative, the Made in China 2025 plan to dominate global manufacturing, and the China Standards 2035 blueprint are critical aspects of China's ambition to be the 21st century's unrivaled economic superpower. To meet that competitive threat, America must redouble its commitment to aggressive pro-innovation policies.

TECNA supports efforts to repeal the harmful R&D amortization provisions. The *Tax Relief Tax Relief for American Families and Workers Act*, a bill that would repeal the harmful amortization provisions, passed with overwhelming bipartisan support in the House (357-70) and is currently stalled in the Senate. Congress must act immediately to reverse the harmful R&D amortization requirement to prevent the loss of jobs and innovation necessary to ensure America's future competitiveness and global innovation leadership.