TECNA
TECHNOLOGY COUNCILS OF NORTH AMERICA

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.

Section 174 Talking Points

• Congress needs to act now to reverse the harmful R&D amortization requirement to prevent the loss of jobs and the innovation necessary to ensure America's future competitiveness.

• Since amortization took effect in 2022, the rate of growth of R&D spending has slowed dramatically from 6.6% on average over the previous five years to less than 1% over the last 12 months and actually declined by 1.2% in the most recent quarter.

• The only way to reverse this slowdown in R&D spending is for Congress to restore immediate R&D expensing before the end of 2023. The expected November 17 government funding bill is possibly the last, best chance to fix this issue. Delaying action into 2024 risks the permanent loss of R&D spending as budgets are trimmed and projects are shelved.

• Already the cash tax cost to companies in 2022 from this change was $40 billion. Failure to fix amortization is roughly equivalent to increasing the headline corporate tax rate by 1.5%-2.0%.

• In addition, smaller and medium-sized businesses are now laying off workers to account for the additional expenses. On October 24, the Wall Street Journal published a story (https://www.wsj.com/articles/the-tax-rule-change-that-is-threatening-businesses-survival-a9236658) detailing how some businesses have laid off 35%-40% of their workforce due to the need to amortize research expenses.

• 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 conduct R&D. China is moving in the opposite direction, permanently expanding its super deduction for R&D expenses to allow a company to deduct 20 times as much in the year it makes an investment in China than it could deduct in the United States.

• But China is not the only country offering much better R&D incentives. In fact, 17 countries provide a deduction that is more than 100% of eligible R&D expenses. As less than 20% of US R&D expenses can currently be deducted, US R&D investment is actively being discouraged.

• There is recent precedent for retroactive extension of expired tax relief – the omnibus spending bill enacted December 20, 2019 (Public Law 116-94) extended more than two dozen tax provisions that had expired December 31, 2017, nearly 24 months earlier