

March 22, 2024

The Honorable Jerry Moran (R-KS)
United States Senate
521 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Moran,

Thank you for your long commitment to enhancing policy circumstances for America's new and small businesses.

On January 31st, the House of Representatives voted 357 to 70 to approve H.R. 7024 – the **Tax Relief for American Families and Workers Act of 2024** – which reflects the bipartisan, bicameral tax framework announced on January 16th by House Ways and Means Committee Chairman Jason Smith (R-MO) and Senate Finance Committee Chairman Ron Wyden (D-OR). Importantly, the legislation would restore provisions of Section 174 of the Internal Revenue Code relating to first-year expensing of research and development investment by American businesses. The legislation is likely to be on the Senate floor in the next few weeks.

On behalf of millions of American entrepreneurs who work every day to launch and build the new businesses that drive economic growth, job creation, and opportunity, we write today to express our strong support for the Act – at a time when our nation's status as the global innovation leader is at stake.

For nearly 70 years, American businesses have been permitted to deduct from taxable income 100 percent of R&D expenses 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 many significant commercial and military advantages for the United States.

But when Congress passed the Tax Cuts and Jobs Act (TCJA) in 2017, it changed the tax treatment of R&D in order to partially off-set the revenue impact of the tax cuts. Beginning in tax year 2022, businesses are now required to amortize R&D investments over five to fifteen years, dramatically increasing their annual tax liability and disincentivizing innovation-generating investments.

The nation's startups are hit disproportionately by the change, as they tend to invest heavily in developing, testing, and improving their new product or service. A tax liability that is substantial and unexpected can be devastating for innovative but fragile 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. This reality is of enormous economic consequence as research has repeatedly demonstrated that startups are disproportionately responsible for the innovations that drive [productivity growth](#) and economic growth, and account for virtually all net new [job creation](#).

TCJA's change to Section 174 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 – all supported by research and development spending growing at double-digit rates year after year.

In March of 2021, China [released](#) its 14th Five-Year Plan, which accelerated development of advanced technologies in seven strategic areas – artificial intelligence, quantum computing, integrated circuits, genetic and biotechnology research, neuroscience, and aerospace. China also increased R&D spending by more than 7 percent annually through the end of 2025, began work on a network of national laboratories, revised regulations to facilitate the flow of venture capital into Chinese startups, and increased bank lending and extended tax incentives to encourage more research and development.

If there were any lingering doubt about China's ambitions, President Xi Jinping was crystal clear at China's 20th Communist Party Congress in October of 2022. In a two-hour speech to open the Congress, Xi [declared](#) that China will “accelerate efforts to achieve greater self-reliance and strength in science and technology...will be guided by national strategic needs...and resolutely win the battle of key and core technologies.”

China intends to win the technological and innovation future. To meet that competitive threat, America must redouble its commitment to aggressively pro-innovation policies.

Unfortunately, TCJA's change to Section 174 severely undercuts America's innovation competitiveness. As Senator Todd Young (R-IN) [explained](#) in a May 10, 2023 Op/Ed:

“China currently provides a 200 percent ‘super deduction’ for R&D expenses that amounts to 20 times the amount allowed in the U.S. tax code. A manufacturing company in China that spends \$100 on R&D gets to deduct \$200. Even before this provision expired, the U.S. ranked 27th out of 37 OECD countries with respect to R&D incentives. Our strategic competitors know this and are taking advantage.”

The effort to restore first-year expensing of R&D investments is about more than tax rates and federal tax receipts – it is central to our nation's long-term economic competitiveness and ability to win the future in a world in which power is defined in terms of technology and innovation.

With this reality in mind, we respectfully urge you to support the **Tax Relief for American Families and Workers Act**.

We thank you for your continued leadership on behalf of America's new and small businesses, and toward preserving America's global innovation leadership.

Sincerely,

AdvaMed (The MedTech Association)
Angel Capital Association
Carbon Technology Institute
Carta
Celdara Medical
Center for American Entrepreneurship
Clean Energy Business Network
Colorado Cleantech Industries Association
Engine
Far Out Ventures
Federation of American Scientists
International Business Innovation Association (InBIA)
MATH Venture Partners
National Small Business Association (NSBA)
National Venture Capital Association
Oregon State University Research Office
Right to Start
Sheet Metal and Air Conditioning Contractors National Association
Small Business & Entrepreneurship Council
Small Business Technology Council
Small Software Business Alliance
TechNet
Technology Councils of North America (TECNA)
TinySeed