Congress of the United States
Washington, DC 20515

May 09, 2023

The Honorable Kevin McCarthy
Speaker
U.S. House of Representatives
H-232, The Capitol
Washington, D.C. 20515

The Honorable Hakeem Jeffries
Minority Leader
U.S. House of Representatives
H-204, The Capitol
Washington, D.C. 20515

The Honorable Jason Smith
Chairman
Committee on Ways and Means
1139 Longworth House Office Building
Washington, D.C. 20515

The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
1129 Longworth House Office Building
Washington, D.C. 20515

Dear Speaker McCarthy, Minority Leader Jeffries, Chairman Smith, and Ranking Member Neal,

We write to you today to stress the importance of addressing amortization requirements for research and development (R&D) expenditures incurred by American taxpayers. Incentives for R&D activities have been a part of the U.S. tax code in some form since 1954, including the ability for taxpayers to deduct qualifying R&D expenses in the year they were incurred.[1] Over the past seven decades, this tax policy has maintained strong bipartisan support.

As you may know, the *Tax Cuts and Jobs Act* – signed into law in 2017 – modified this deduction by requiring the amortization of R&D expensing over five or fifteen years beginning in 2022.

We are concerned about the impact this now active policy may have on American businesses and the cost of research, development, and innovation. According to a standardized analysis done by the National Science Foundation (NSF), the U.S. led the world in R&D expenditures in 2019, accounting for 28 percent of global investments ($668.4 billion). China invested $525.7 billion in R&D – 22 percent of global expenses.[2] But per a 2019 study done by Ernst & Young, this new amortization requirement could reduce domestic R&D spending by $4.1 billion annually from 2022 to 2026, making the U.S. less competitive compared to countries like China, which is rapidly increasing their support for R&D investments.[3]

In Kansas alone, Ernst & Young estimates this amortization requirement will reduce R&D spending by $19 million, decrease wages by $15 million, and eliminate 110 jobs over the next

[1] Gary Guenther, "Federal Research Tax Credit: Current Law and Policy Issues," Congressional Research Service, July 27, 2022.
[2] "Cross-National Comparisons of R&D Performance," National Science Foundation.
[3] "Impact of the amortization of certain R&D expenditures on R&D spending in the United States," Ernst & Young, October 2019.

five years. Those numbers grow to $48 million in spending, $39 million in wages, and 276 jobs from 2027 to 2031.[4]

After the economic impacts of the COVID-19 pandemic, the immediate deduction of R&D expenses is more critical than ever to spurring innovation at both our local small businesses and major American manufacturing firms.

We therefore ask you to prioritize bringing H.R. 2673, the *American Innovation and R&D Competitiveness Act of 2023* to the House floor as swiftly as possible. This bipartisan legislation eliminates the amortization requirement and enjoys a broad range of support from Members and stakeholders like the Aerospace Industries Association, National Taxpayers Union, National Association of Manufacturers, Semiconductor Industry Association, Small Business and Entrepreneurship Council, and the U.S. Chamber of Commerce.

As the 2023 tax season has passed, Kansas businesses are already feeling the negative effects of this amortization requirement. Thank you for your attention to this urgent matter, and we stand ready to answer any questions and work with you to deliver this legislation to the President as quickly as possible.

Sincerely,

Sharice L. Davids
Member of Congress

Jake LaTurner
Member of Congress

Tracey Mann
Member of Congress

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[4] "Impact of the amortization of certain R&D expenditures on R&D spending in the United States," Ernst & Young, October 2019.