

April 18, 2023

The Honorable Maggie Hassan
324 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Todd Young
185 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senators Hassan and Young:

On behalf of the undersigned taxpayer, consumer, and free market advocates, we applaud you for your ongoing leadership in the effort to restore full and immediate expensing for investments in U.S. research and development (R&D). This leadership is embodied in your re-introduced American Innovation and Jobs Act, which will help U.S. workers and entrepreneurs for decades to come by ensuring America remains a competitive and welcoming place for companies large and small to invest in R&D.

As you know, the federal government's tax treatment of R&D expenses switched from full and immediate expensing to five-year amortization in tax year 2022, as a result of the 2017 tax reform law. Before 2022, businesses were able to fully expense R&D for decades, dating back to the enactment of section 174 of the Internal Revenue Code in 1954.¹

The switch to five-year amortization, after decades of full expensing, has the practical effect of making it more expensive for businesses large and small to invest in R&D here in the United States. In a globally connected and technologically advanced world where the U.S. is competing with countries all over the world for workers, ideas, talent, and innovation, the 2022 switch from R&D expensing to amortization came at the worst time.

The Tax Foundation has found that returning to full R&D expensing would increase U.S. gross domestic product (GDP), U.S. gross national product (GNP), capital stock, and U.S. wage rates.² The American Innovation and Jobs Act, would permanently restore R&D expensing in the U.S. tax code.

The American Innovation and Jobs Act also expands the section 41 research credit in a variety of ways. While the restoration of full R&D expensing is the most important and impactful provision in your legislation, the research credit expansions appear properly and narrowly targeted at small and start-up businesses, who should be the primary beneficiaries of any research credit expansion.

Thank you again for your steady and thoughtful work on the vital issue of restoring full expensing for businesses' U.S. R&D expenditures. Your proposal will have a significant and positive impact on U.S. economic and wage growth.

Sincerely,

National Taxpayers Union

Center for a Free Economy

Hispanic Leadership Fund

60 Plus Association

Center for Freedom and Prosperity

Lincoln Network

AMAC Action

Center for Individual Freedom

Small Business & Entrepreneurship Council

American Consumer Institute

Consumer Action for a Strong Economy

Taxpayers Protection Alliance

Americans for Tax Reform

FreedomWorks

¹ Congressional Research Service. "Tax Expenditures: Compendium of Background Material on Individual Provisions." December, 2022. Retrieved from: <https://www.govinfo.gov/content/pkg/CPRT-117SPRT49569/pdf/CPRT-117SPRT49569.pdf#page=94> (Accessed February 16, 2023.)

² Muresianu, Alex; and Watson, Garrett. "To Stimulate R&D Investment, Stop Penalizing it in the Tax Code." Tax Foundation, March 16, 2022. Retrieved from: <https://taxfoundation.org/rd-expensing-tax-investment/> (Accessed February 16, 2023.)