November 17, 2023

The Honorable Chuck Schumer
Senate Majority Leader
Washington, District of Columbia 20510

The Honorable Mike Johnson
Speaker of the House
Washington, District of Columbia 20510

The Honorable Mitch McConnell
Senate Minority Leader
Washington, District of Columbia 20510

The Honorable Hakeem Jeffries
House Minority Leader
Washington, District of Columbia 20510

Dear Senators Schumer and McConnell and Congressmen Johnson and Jefferies:

We are small business and startup innovators driving economic growth, competition, and innovation across numerous consumer and enterprise markets in America. We research, develop, and provide internet of things (IoT) solutions and cutting-edge technologies that have significantly improved the quality of life for consumers and businesses across a wide range of use cases. We, the undersigned American innovators and small business owners, write to urge Congress to promptly reverse the harmful changes made to Section 174 of the Internal Revenue Code by the 2017 Tax Cuts and Jobs Act (TCJA).

Since 1954, the Internal Revenue Code (IRC) section 174 research and development (R&D) provisions have enabled companies and entrepreneurs that conduct research and development to deduct these expenses in the year they were incurred.\(^1\) Due to a budgetary adjustment as part of the 2017 TCJA, this provision has lapsed as of 2022. Small business entrepreneurs and innovators now face substantial obstacles that not only jeopardize job creation in the United States but also threaten to diminish our global competitiveness.

Small app companies, which generally do not have an abundance of resources to hire a team of accountants, are now required to spread the deduction of these expenses over a five-year period. This, unfortunately, marks the first time in 70 years that businesses find themselves unable to immediately claim the full value of eligible R&D expenses when filing their taxes. This unexpected turn of events has left many of us ill-prepared for substantially higher tax obligations than anticipated, potentially pushing some toward bankruptcy and business closures.

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For a nation that prides itself on leading innovation, failing to reverse this harmful provision will result in the loss of well-paying STEM/STEAM jobs, hindering the United States' future growth. Requiring the amortization of research expenses will directly reduce R&D spending and lead to a loss of more than 23,000 R&D jobs in the first five years, with that number increasing to 60,000 over the following five years. Many of these lost jobs will be at startups and small businesses with high growth potential that will fail due to a lapsed provision in the tax code.

As a result of these changes, the United States is now one of only two developed countries requiring the amortization of R&D expenses. Meanwhile, competing countries like China currently provide super deductions for R&D expenses, allowing companies to deduct a total of 200 percent of their R&D expenses before tax. At a time when countries around the world are providing R&D tax incentives for companies, this change puts U.S. small businesses at a competitive disadvantage. The amortization requirement also poses a threat to our national security if not reversed. As the National Science and Technology Council noted, R&D investments “are essential to ensure that the United States remains able to secure and protect the American people in the face” of other countries increased support for R&D. To strengthen our competitive advantage in technology innovation, we seek to foster an ecosystem that is favorable to the dynamic and flexible nature of our small innovators.

We request that legislative proposals to address this issue, such as the American Innovation and Jobs Act (S.866) led by Senators Young (R-IN) and Hassan (D-NH) in the Senate, and the American Innovation and R&D Competitiveness Act of 2023 (H.R. 2673) led by Representatives Estes (R-KS) and Larson (D-CT) in the House, be considered. The passage of this legislation is crucial in supporting the R&D investments made by innovative companies. These bills would ensure businesses can once again utilize Section 174 credits, allowing them to continue growing and innovating.

For these reasons, we respectfully urge Congress to act promptly to ensure that the tax code continues to support innovation. Doing so is vital for maintaining America's global leadership in innovation and bolstering American economic security. Supporting the flexible and dynamic nature of our small business innovators is critical in keeping pace in the global race for R&D.

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3 Ibid.


5 Subcommittee on Research and Development Infrastructure, Committee on Science and Technology Enterprise of the National Science and Technology Council, National Strategic Overview for Research and Development Infrastructure in 2021 (pg.23)
Sincerely,

/n Software
Alchemy Security
Avenue Healthcare
Busy Bee Studios
Cavu
ComputerWays Inc.
Devscale
Dogtown Media
Epic Reach
ExecuSense
FMS Inc.
ForAllAbilities
Fresco Capital
GiveBlack App

Hatchet Ventures
Homnick Systems
Ironglassbyte
Jungalytics
LunarLab
MedHealth
Mend VIP
Rotational Labs
Sheer Health
Sigao
Soteria
TechNeed Solutions
Vemos
Youdle