

SMALL BUSINESSES NEED THE R&D TAX DEDUCTION

THE ISSUE:

Section 174, the research and development (R&D) deduction, hasn't been renewed in three years. Until 2022, this federal tax deduction, in place for almost 70 years, enabled companies to expense 100 percent of their R&D expenditures the year those expenditures were made. Unfortunately, Congress failed to renew the deduction in 2022. As a result, businesses are now forced to amortize their R&D costs over five years — increasing their annual tax burden, in some cases by as much as five times.

WHY IT MATTERS TO SMALL BUSINESSES:

R&D is an important aspect of many small developers' business plans and is a powerful job creator in the United States. Without the R&D tax deduction, many small businesses persistently see significantly higher tax bills. A small software startup that spends \$1 million to build its core product now must spread that expense over five years for tax purposes. That means they can only deduct \$200,000 this year, rather than the full \$1 million. Meanwhile, they still must pay their employees, maintain cash flow, and—most importantly—compete in an industry where speed is everything. The result? Less money to reinvest, fewer new hires, stalled innovation, and limited future growth.

This system is unsustainable for small technology businesses and the American economy as a whole. Every \$1 billion in R&D spending supports about 17,000 jobs domestically. This is why Congress has long prioritized R&D investments in the U.S. tax code, which helps American companies compete against foreign rivals. Moreover, small businesses compete globally against foreign companies that benefit from additional 100 percent “super deductions,” making it even harder for U.S.-based small businesses to compete.

WHAT POLICYMAKERS CAN DO:

Congress must pass the American Innovation and R&D Competitiveness Act of 2025 (H.R. 1990) to reinstate the Section 174 R&D deduction provision. In March, Representatives Estes and Larsen—with broad support from their colleagues—reintroduced the American Innovation and R&D Competitiveness Act of 2025 (H.R. 1990). The bill, which allows businesses to utilize Section 174 benefits to deduct full-expense R&D spending without amortization requirements, is a critical step towards reinvigorating domestic capital investments and strengthening our American workforce. It is imperative that Congress swiftly pass this critical piece of legislation and champion a comprehensive tax incentive framework that empowers small businesses nationwide to remain competitive. Small businesses are the backbone of our economy and providing them with essential resources to thrive is vital for sustained economic growth.