

Tax Policy



Discover the App Economy





Key Takeaways

- 1** The federal tax code plays an important role in providing the right incentives for American small businesses like ACT | The App Association members to compete and grow in the rapidly evolving app economy.
- 2** Digital health monitoring, telework, and research and development are a few of the ways the federal tax code impacts small businesses in the digital marketplace.
- 3** Congress should address the tax policy issues affecting small businesses in the ways outlined here.



Federal Tax Policy for App Makers

The tax code plays an important role in providing the right incentives for American small businesses like The App Association members to compete and grow, especially American small businesses in your district. While recent changes to federal tax rates have benefited businesses generally, Congress should revisit several provisions to avoid punishing or slowing the growth of job creators in the app economy.

Policymakers should improve the investment environment for small app and connected device companies through three specific changes to tax policy:

Section 174, the research and development (R&D) tax credit

This federal tax credit, in place for almost 70 years, enables companies to deduct 100 percent of their R&D expenditures the year those expenditures are made. R&D is an important aspect of many of our members' investment plans and is a powerful job creator in the United States. For example, 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. Many of those foreign companies benefit from additional 100 percent "super deductions" from their own governments.

Unfortunately, this deduction, found in Section 174 of the Internal Revenue Code, expired in 2022, and last year's investments in R&D will be much more expensive unless Congress extends the provision.

We urge Congress to pass legislation extending the Section 174 R&D deduction provision immediately.

Telework for small businesses

Some state laws provide for deductions allowing taxpayers to deduct amounts spent on accommodations that specifically support their ability to telework. It is unfair for large companies to have deductions available, by virtue of their employees living in a variety of states, while small businesses with employees in a single state cannot rely on a similar federal deduction." **These expenditures can fall heavily on small business employees and owners, so we urge Congress to consider a similar telework expense deduction in the Internal Revenue Code for small businesses.**

Multi-function health monitoring devices, digital health apps, and software platforms purchased for medical care

In 2022, nearly half of Americans have a device that would help them monitor and control health issues. Unfortunately, the Internal Revenue Service (IRS) is still rooted in concepts from the 1980s and refuses to recognize multi-function devices. In its fiscal year 2022 (FY22) appropriations package, Congress directed the IRS to consider including wearable devices and associated software as eligible for tax-exempt flexible spending account and health savings accounts (FSAs/HSAs). Currently, the IRS decides whether to include certain items as eligible expenses for FSA/HSA purposes in an annual guidance document.

Unfortunately, while the IRS routinely includes items with a single purpose, such as electrocardiogram and pulse oximetry monitors, it has declined to include multi-function devices that may perform functions otherwise eligible for FSA/HSA. As wearable devices and remote patient monitoring software continue to improve and become vital components of virtual and in-person care, federal tax treatment must stop prioritizing lower-tech solutions. **We urge Congress to update the statute to include powerful digital health tools and wearable devices meeting certain thresholds as eligible for FSA and HSA expenditures.**

