Dear U.S. Policymakers:

We, the members of ACT | The App Association, are innovative small businesses and independent developers driving change in the global app economy. From artificial intelligence (AI) and digital trade to connected health and decentralized technologies, our companies build the tools and services that power today's digital world.

However, to continue building innovative products, creating jobs, and connecting with communities worldwide, the businesses like ours that are driving the digital economy need a regulatory environment that rewards and inspires innovation. This environment should foster the market certainty needed to drive investment and innovation while avoiding overreach or unintended harm. When regulations miss the mark, they risk stifling small businesses and curtailing the societal benefits we work tirelessly to deliver. As we enter 2025, we call on U.S. policymakers to champion balanced, forward-thinking approaches that empower small businesses and sustain the growth of the digital economy. Below, is an outline of the top policy priorities for incoming U.S. leadership to address in 2025.

Artificial Intelligence

Small businesses and independent developers are driving advancements in AI, creating tools that improve healthcare outcomes, boost agricultural productivity, and optimize logistics. However, misguided regulatory interventions into emerging AI markets, like the EU Artificial Intelligence Act, which imposes sweeping requirements across AI applications, risk derailing innovation, setting a dangerous global precedent. By establishing rigid classifications that fail to account for context and inserting the EU into AI development and deployment cycles, heavy-handed interventions like the EU's disproportionately burden small businesses by requiring compliance measures that are often better suited to large corporations.

We urge U.S. policymakers to take a different path, prioritizing a risk-based approach that considers context and intended use. Frameworks like the NIST AI Risk Management Framework provide a model for balancing innovation with accountability. U.S. policymakers should avoid rushing into regulations that address hypothetical or overly broad risks without considering the practical implications for small businesses and consumers. Such an approach could unintentionally hinder the development and accessibility of AI-powered tools, from advanced language models to specialized, custom solutions, while driving up costs and stifling innovation. By striking the right balance, the United States can lead the AI revolution, creating a regulatory environment that supports small businesses, encourages innovation, and effectively addresses the legitimate risks AI presents.

Privacy and Competition

Privacy and security are no longer standalone issues; they are central to competition in the digital economy. For small companies, consumer trust is our most valuable asset. Unlike larger corporations with established name recognition, small businesses must work harder to build consumer trust in a competitive market. For us, this trust goes hand-in-hand with our ability to deliver secure, privacy-centric solutions. Platforms play a critical role by providing privacy and security tools that allow us to better protect user data and foster trust.

However, in the absence of a comprehensive federal privacy law, small businesses are disproportionately harmed by the compliance burdens wrought by a fragmented privacy landscape made up of disparate state laws like California's CPRA and Virginia's CDPA, coupled with proposed legislation like the Kids Online Safety Act (KOSA). While legislation like KOSA aims to enhance online safety for children, its broad requirements could force us to collect and manage more data on minors than we currently do to meet compliance expectations. Larger corporations have the resources to handle these burdens, but for small businesses, these challenges could increase costs, undermine consumer trust, and stifle competition. Legislative proposals like the Open App Markets Act further complicate this landscape by disrupting the collaborative relationship between platforms and developers, making it harder for small businesses to compete. Recent legal decisions further risk undermining these dynamics by imposing remedies that disrupt developer autonomy and compromise app security.

Policymakers must understand how mandating open access to online marketplaces or implementing policies that favor larger competitors affect our ability to protect privacy and cultivate consumer trust. We urge policymakers to take the opposite approach and establish a national privacy framework aligned with the App Association's "4 Ps of Privacy" (Preemption, Protection, Path to Compliance, and Private Right of Action Limitations) and principles of the American Data Privacy and Protection Act (ADPPA) would ensure consistent protections for consumers and reduce compliance burdens for small businesses. **Policymakers must avoid competition proposals and enforcement actions that would undermine privacy and small business prospects and instead strengthen the privacy and security tools and infrastructure** that empower small businesses to innovate in a trusted environment.

Standard-Essential Patent (SEP) Licensing

Balanced standard-essential patent (SEP) licensing frameworks are essential for ensuring small businesses can use standardized technologies to interoperate and compete. Unfortunately, some SEP holders make promises to license on fair, reasonable, and non-discriminatory (FRAND) terms only to disregard those commitments, abusing their dominant position, harming competition, and creating significant barriers for small innovators. Transparency and fairness in SEP licensing will become even more critical for smaller businesses trying to compete in rapidly advancing fields like AI and the internet of things (IoT) and increasingly rely on standardized protocols as they mature.

Policymakers must act swiftly to adopt clear, transparent SEP licensing frameworks that ensure fairness, prevent anti-competitive behaviors, and uphold the integrity of FRAND commitments. This will empower small businesses like ours, drive innovation, and protect the broader app economy, particularly in areas where emerging technologies like AI and IoT play a pivotal role in economic growth and consumer value.

R&D Tax Deduction

A successful digital economy doesn't happen by accident; it's built through strategic investments in innovation and sustained support for businesses of all sizes. For small businesses driving the app economy, research and development (R&D) tax deductions are essential tools that make it possible to take risks, create cutting-edge technologies, and compete globally. These incentives help offset the high costs of innovation, empowering startups and independent developers to build the next generation of digital products and services.

Yet, recent policy shifts threaten this progress. The 2017 Tax Cuts and Jobs Act (TCJA) now forces companies to amortize R&D expenses over several years instead of deducting them immediately. This change creates serious cash flow challenges for small businesses, delaying hiring, slowing product development, and limiting our ability to scale. While large corporations can absorb these costs, small innovators are left struggling to stay competitive, widening the competition gap between these two groups.

We urge policymakers to restore immediate expensing of R&D investments. Strengthening these incentives is critical to fostering a digital economy where small businesses can continue to innovate, create jobs, and drive economic growth. The United States must prioritize policies that give innovators the flexibility and resources to turn ideas into solutions that benefit consumers and strengthen our economy.

Mergers and Acquisitions

Mergers and acquisitions (M&A) are essential for small technology companies to scale, attract investment, and continue innovating. For many startups, acquisition is a primary pathway to secure growth capital and deliver returns to early-stage investors. However, recent changes at the Federal Trade Commission (FTC) and Department of Justice (DOJ) are creating significant challenges for small businesses.

The FTC's recent updates its Hart-Scott-Rodino (HSR) rules increase compliance burdens without thoroughly assessing their impact on small businesses. Additionally, DOJ's revised policies broadly discourage procompetitive M&A, discouraging investment and slowing innovation in tech-driven markets.

We urge Congress, the FTC, and DOJ to adopt a more balanced approach to mergers and acquisitions that will widely enable pro-competitive mergers and provide much better clarity for parties seeking M&A based on demonstrated economic harms. Ensuring that merger policies support, rather than hinder, small business growth is critical to fostering a healthy, innovative tech ecosystem.

Digital Trade and Cross-Border Data Flows

A strong U.S. economy relies on American policymakers' commitment to protect domestic companies' digital trade interests. This commitment defends small businesses against foreign policies designed to exclude or disadvantage them, undermining their ability to build consumer trust and leverage online marketplaces that reduce overhead costs. However, the U.S. Trade Representative's (USTR) recent shift away from prioritizing needed digital trade protections has jeopardized these critical opportunities for our companies.

The U.S. government's shift in trade policy limits the ability of U.S. small businesses to compete globally, limiting access to international customers and increasing compliance burdens. To ensure that small businesses continue to thrive in the digital economy, **USTR must reaffirm its commitment** to strong digital trade policies that safeguard cross-border data flows, reduce trade barriers like those presented by Europe's Digital Markets Act (DMA), and empower small innovators to deliver high-quality products and services to consumers worldwide.

Connected Health

From Medicare reimbursement to the tax code, federal policy must evolve to fully realize the potential of the digital health tools that are critical for enabling patients to access high-quality, cost-effective care and for supporting caregivers in providing it. For example, health savings account/flexible spending account (HSA/FSA)-eligible devices are generally limited to *single-use* devices. As a result, the current Internal Revenue Service (IRS) policy only recognizes a few wearable devices as eligible, like the WHOOP, Oura Ring, and Aura Strap 2. Unfortunately, this case-by-case approach forces consumers to *purchase multiple single-function devices* instead of a *single device with multiple functions*. It also excludes the software subscriptions that are often essential for these devices to operate effectively. By prioritizing outdated, single-use technologies, this approach stifles innovation, limits consumer access to modern, multifunctional solutions, and reinforces reliance on legacy devices that fail to meet the evolving needs of today's healthcare landscape.

In addition, Medicare, the largest healthcare insurer in the United States, has a profound impact on not just its beneficiaries but the entire healthcare ecosystem. Medicare's reimbursement for remote patient monitoring (RPM) is transforming healthcare access and affordability by enabling patients to receive high-quality care beyond traditional settings. This coverage has driven significant advancements in access to care, especially during and after the COVID-19 pandemic, by fostering innovative care delivery models. Small and medium-sized connected health companies play a critical role in this transformation. Our size and agility allow us to pivot quickly and develop patient-centric innovations that larger organizations often cannot. However, we face unique challenges in navigating reimbursement structures and regulatory requirements, which can hinder our ability to scale and sustain these advancements.

Policymakers must address these challenges to ensure that federal policies reflect the value of digital health innovation. **Congress must enact the Wearable Equipment**

Adoption, Reinforcement, and Investment in Technology (WEAR IT) Act (H.R. 6279, 118th) to ensure that wearable health devices and their associated software are eligible for expenditures using tax-advantaged HSA and FSA funds. Additionally, **expanding reimbursement opportunities for connected health technologies,** modernizing payment models to reflect the value of digital health innovation, and ensuring regulatory frameworks support smaller innovators. Safeguards for privacy, health data security, and interoperability must remain central to these efforts to maintain patient trust and enhance care coordination. These reforms will empower small businesses to drive innovation, improve healthcare outcomes, and meet the demands of modern patients and caregivers.

Decentralized Technologies

Blockchain and decentralized technologies offer transformative opportunities, from enabling transparent supply chains to providing secure digital payments. With the new Administration's leadership showing strong support for decentralized technologies, like cryptocurrency, there is a significant opportunity to support new market investment and innovation. Decentralized technologies like blockchain can address challenges in data transfer and protection, providing small businesses with secure alternatives to navigate complex frameworks.

To realize these opportunities, **U.S. policymakers should provide regulatory clarity** for decentralized technologies, including blockchain, cryptocurrency, and other use cases like supply chain management. A balanced approach will foster innovation, address risks, and ensure small businesses can harness these tools to drive economic growth and build trust in the digital economy.

Workforce Development

Expanding access to computer science education and workforce development programs is essential for ensuring the digital economy reflects the diversity of the communities it serves. Small businesses are at the forefront of driving innovation and creating opportunities, but we depend on a skilled and diverse workforce to thrive. Initiatives like the CHIPS and Science Act have made strides in addressing these needs, but significant opportunity gaps persist, particularly for underrepresented groups in technology.

We ask policymakers to prioritize equitable access to education by investing in computer science programs at all levels and creating pathways into tech careers for underserved communities. This includes expanding public-private partnerships, supporting small business apprenticeships, and incenting training programs focusing on emerging technologies like AI, blockchain, and cybersecurity. By addressing these gaps, policymakers can strengthen the talent pipeline, empower small businesses, and ensure that the benefits of the digital economy are accessible to all.

Innovation thrives when policymakers enable environments where businesses of all sizes can compete and succeed. Overly broad or burdensome regulations risk stalling progress, but thoughtful, future-focused policies can empower small businesses to innovate, create jobs, and improve lives. We remain committed to working with Congress, the new Administration, and U.S. leaders to advance these priorities and ensure the continued success of American innovation and the most robust U.S. economy possible.

Sincerely,

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