

R&D AMORTIZATION

Background:

A change in tax policy that took effect in January of 2022 has created significant tax burdens and cash flow problems for engineering firms and other businesses engaged in cutting edge research and development (R&D) activities. The change in policy is forcing firms to amortize R&D costs over five years, versus deducting expenses the year they occurred. ACEC supports bipartisan legislation (H.R. 2673/S. 866) that will restore the yearly deductibility of R&D expenses.

Since 1954, Section 174 of the federal tax code allowed businesses to deduct qualified research expenses in the year those costs were incurred. To further incentivize cutting edge research Congress created the related R&D tax credit in 1981. These long-standing rules provided the necessary alignment between R&D expenditures and tax incentives intended to encourage innovation and enhance the nation's competitiveness.

As part of the Tax Cuts and Jobs Act of 2017, Congress changed how taxpayers deduct R&D expenses. Starting on January 1, 2022, firms could no longer deduct R&D expenses in the year they were incurred and now must amortize those expenses over five years in most cases.

Key Points:

- The R&D amortization requirement has created a burden on engineering firms of all sizes but is particularly challenging for small and midsize firms, which make up 90 percent of the industry.
- Amortization has led to significantly higher tax bills, requiring firms in many cases to use loans to pay the tax, put off needed investments in their workforce, delay equipment purchases and set aside plans to grow.
- Requiring that R&D expenses be deducted over five years creates a disincentive for investment in innovation.
- The U.S. is currently only one of two developed countries that requires amortization of R&D expenses and many of our competitors, including China, offer businesses larger incentives for R&D.

Request:

- » Cosponsor the American Innovation and R&D Competitiveness Act (H.R. 2673)/American Innovation and Jobs Act (S. 866) to repeal the R&D amortization requirement.