

September 27, 2023

The Honorable Kevin McCarthy
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable Chuck Schumer
Majority Leader
U.S. Senate
Washington, DC 20510

The Honorable Hakeem Jeffries
Minority Leader
U.S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Minority Leader
U.S. Senate
Washington, DC 20510

Dear Speaker McCarthy, Minority Leader Jeffries, Majority Leader Schumer, & Minority Leader McConnell:

For nearly 70 years, the U.S. tax code has supported innovation through the R&D tax deduction. Beginning in 2022, a critical change to Sec. 174 of the tax code forced firms to amortize these expenses over a five-year timeframe. Now firms can only deduct 10% of R&D expenses in the first year; previously these expenses were fully deductible. As a result, many small businesses have been hit unexpectedly with ballooning tax bills and are facing delayed hiring, potential layoffs, or even closure.

This policy shift represents a drastic blow to the U.S. innovation economy and our international competitiveness. The U.S. is now one of just three developed countries with this tax policy and falling behind our international competitors on R&D. Compared to 33 of our closest competitive countries, ITIF projects this policy shift will [drop the U.S. from 24th to an abysmal 32nd](#) on tax support for innovation.

We the undersigned stakeholders, working across the cleantech industry and beyond, write to express our collective concern about the immense damage that will impact startups, small businesses, and innovation at large without quick action from Congress to restore immediate expensing to Sec. 174.

Multiple independent analyses have concluded that Congress failing to act will have drastic impacts on jobs and investments in innovation. Ernst and Young [projects](#) that the change to Sec. 174 expensing will cost up to 169,000 jobs and \$10.1 billion direct R&D investments annually, and the [National Association of Manufacturers](#) estimates a drop of over 260,000 jobs in 2023 alone. These employment losses are wide-reaching and will impact [high-wage jobs across all 50 states](#).

Crucially, small businesses are the least equipped to navigate changes to the tax code and often most impacted when changes do occur with fewer financial resources to weather the storm:

- [A study from the Small Business & Entrepreneurship Council](#) indicates that 35% of firms surveyed that leverage this tax deduction indicated a need to borrow money to pay taxes. The median tax liability increase was 32% or \$59,000, and one out of four firms anticipated a tax hit above \$100,000.
- With limited resources to monitor tax code changes, many firms had little warning of new Sec. 174 rules until tax season. Of those surveyed, 28% of firms were unaware of the change.

With the recent change to the R&D tax deduction, the business certainty that innovative firms had come to rely on for decades vanished, and many firms were forced to file for extensions through Mid-September or October. The impact and timing on small businesses underscores the urgency of Congress to act as soon as practicable to restore immediate expensing of the R&D tax deduction and alleviate the harm this policy has already inflicted on small businesses and cutting-edge U.S. innovation.

Congress has an opportunity to support these entrepreneurs through legislation that already enjoys widespread bipartisan and bicameral support. [S.866](#) and [H.R.2673](#) would permanently restore immediate expensing of the Sec. 174 R&D tax deduction retroactive to Jan 1, 2022. We strongly urge congressional leaders to pass this legislation ahead of the next tax season.

Now is not the time for the U.S. government to turn its back on innovative small businesses across the country.

Sincerely,

*BRITE Energy Innovators
Business Council for Sustainable Energy
Carbon Business Council
Carbon Technology Institute
Chambers for Innovation and Clean Energy
Clean Energy Business Network
Clean Energy Economy Minnesota
Cleantech San Diego
Colorado Cleantech Industries Association
C3 Action
Greentown Labs
Illinois Science & Technology Coalition
Information Technology & Innovation Foundation
LabStart
Launch Alaska
Launch Tennessee
Los Angeles Cleantech Incubator
Maryland Clean Energy Center
mHUB Chicago
New Energy Nexus
Sheet Metal & Air Conditioning Contractors' National Association
Signal Tech Coalition
Small Business and Entrepreneurship Council
Small Business Technology Council
Small Software Business Alliance
TechNet
Third Way
Urban Future Lab
Utah Clean Energy
VertueLab*