R&D Amortization

Center Forward Basics
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Overview

U.S. companies spend over six hundred billion dollars each year on innovative research and development (R&D).[1] This substantial investment impacts virtually every sector of the U.S. economy, driving advancements and breakthroughs that impact our daily lives and play a crucial role in societal progress and economic growth.

To encourage investment in R&D, countries around the world offer various incentives that help businesses offset the cost of their R&D spending. One of the most widespread ways governments encourage R&D investment is to allow businesses to deduct their R&D expenditures from their taxes each year. From 1954 until 2021, businesses in the United States were able to deduct their R&D expenditures in the year in which they occurred under 26 U.S. Code § 174. However, 2022 marked a major change in the U.S. tax code, mandating that businesses amortize their R&D expenditures for the first time.

This basic will provide an overview of what R&D amortization is, how it affects U.S. jobs, innovation, global competition, and the legislative outlook on the issue.

R&D Amortization Background

For the last 70 years U.S. businesses have been able to deduct R&D expenditures in full each year. This changed when the 2017 Tax Cuts and Jobs Act (TCJA) amended Section 174 to include a clause that mandates businesses deduct their R&D expenditures over five years for domestic R&D or fifteen years for foreign R&D starting January 1, 2022 (known as "amortization''). This provision was included in the 2017 TCJA as an offset to meet Senate reconciliation requirements.

Center Forward Basics

Center Forward brings together members of Congress, not-for-profits, academic experts, trade associations, corporations, and unions to find common ground. Our mission: to give centrist allies the information they need to craft common sense solutions and provide those allies the support they need to turn those ideas into results.

In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common-sense solutions.

For more information, please visit www.center-forward.org

How R&D Amortization Affects U.S. Jobs, Innovation, and Global Competitiveness

The implementation of R&D amortization is already having a significant negative effect on U.S. workers and companies, with an even greater impact anticipated in the coming years. Recent studies into the impacts of this change raise serious concerns about its effects on U.S. jobs, innovation, and global competitiveness. These concerns extend even to U.S. small businesses, which account for approximately 15% of U.S. annual R&D spending.

One of the most serious implications of this policy is the impact it will have on high-earning R&D jobs. Because nearly 75% of R&D expenditures go to supporting the salaries of R&D employees, mandatory R&D amortization is expected to have a significant impact on researchers across the country. In fact, recent studies anticipate this policy will lead to a loss of nearly 240,000 jobs in the first decade of this policy.[2]

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[1] NCSES: R&D Info Brief
[2] Ernst & Young: Impact of Amortization on R&D

In addition to the loss of tens of thousands of American jobs, R&D amortization will also lead to a significant reduction in R&D spending, reducing future innovation. According to the Congressional Budget Office, mandatory amortization "will reduce the incentive to invest in R&D." Studies estimate the impact of this policy change will reduce U.S. R&D investment by $71 billion over the next decade and will impact nearly every sector of the U.S. economy.[3]

This reduction in innovation will also have an impact on the U.S.'s global competitiveness. As one of only two Organisation for Economic Co-operation and Development (OECD) countries to mandate R&D amortization, the United States is moving in the opposite direction of much of the world in its treatment of R&D expenditures. Countries like China, the U.K., and Greece currently provide a super deduction for R&D expenses for up to an additional 100 percent of eligible R&D expenses in addition to the R&D expenses incurred. This means that U.S. companies' foreign competitors can receive as much as 20 times the tax benefit received by U.S. companies for doing the same research in some years. Another concern is the threat this policy poses to U.S. national security. According to The National Science and Technology Council, sustained R&D investments "are essential to ensure that the United States remains able to secure and protect the American people in the face of this increased competition." With many other countries prioritizing R&D investment, the U.S. risks falling behind our adversaries in critical national security-related R&D, including in areas such as defense and biosecurity.

Legislative Outlook

Several bills in the 118th Congress would restore the immediate deduction of R&D expenditures with significant bipartisan and bicameral support. H.R.2673, the American Innovation and R&D Competitiveness Act of 2023, was introduced in April 2023 by Representatives Ron Estes (R-KS) and John Larson (D-CT) and currently has 213 bipartisan cosponsors (113 Republicans, 100 Democrats). The Senate bill, S.866, the American Innovation and Jobs Act, was introduced by Senators Maggie Hassan (D-NH) and Todd Young (R-IN) and currently has 41 bipartisan cosponsors (21 Republicans, 20 Democrats).

On January 16, 2024, House Ways and Means Committee Chairman Jason Smith (R-MO) and Senate Finance Committee Chairman Ron Wyden (D-OR) announced a bipartisan, bicameral tax framework that would address several issues, including expanding the Child Tax Credit, restoring the immediate expensing of research and development, expanding the low-income housing tax credit, increasing disaster aid, providing Taiwan double tax relief, among other provisions. On January 17, 2024, Chairman Smith released H.R. 7024, the Tax Relief for American Families and Worker Act based on the negotiated framework. Importantly, this framework includes a delay of domestic R&D amortization until 2025, returning to the 70-year precedent of allowing businesses to immediately deduct their R&D expenditures in full each year.

Links to Other Resources

- Bloomberg Tax – The R&D Tax Break and Bipartisan Support for Its Restoration
- DLA Piper – 2022 post-election legislative and policy update: Implications of the midterms for the lame duck session and the next Congress
- Ernst & Young – Impact of the Amortization of Certain R&D Expenditures on R&D Spending in the United States
- FDA – PDUFA Reauthorization Performance Goals and Procedures Fiscal Years 2023 Through 2027
- H.R. 2673 – American Innovation and R&D Competitiveness Act of 2023
- National Center for Science and Engineering Statistics – Businesses Spent Over a Half Trillion Dollars for R&D Performance in the United States During 2020, a 9.1% Increase Over 2019

[3] Ernst & Young: Impact of Amortization on R&D

- National Center for Science and Engineering Statistics – Info Brief
- S. 866 – American Innovation and Jobs Act
- Wall Street Journal – U.S. CFOs Ask Congress to Repeal Change to R&D Tax Rules