July 17, 2020

Leader Mitch McConnell
S-230 U.S. Capitol
Washington, DC

Speaker Nancy Pelosi
H-232 U.S. Capitol
Washington, DC 20515

Minority Leader Chuck Schumer
S-221 U.S. Capitol
Washington, DC 20515

Minority Leader Kevin McCarthy
H-204 U.S. Capitol
Washington, DC 20515

Dear Leader McConnell, Minority Leader Schumer, Speaker Pelosi and Minority Leader McCarthy:

As Congress works on additional legislation to address the economic fallout from the COVID-19 pandemic, the National Association of Manufacturers respectfully requests the inclusion of specific tax policies that will spur innovation, protect jobs and help ensure the strongest economic recovery possible. The NAM is the nation's largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. As detailed in our American Renewal Action Plan, manufacturers have proposed policies that will aid the industry's response to the pandemic, help the country recover and ultimately spur an economic renewal.[1]

Among these policies is support for research and development. The pandemic has made it abundantly clear that public health depends on rapid innovation. Innovation also spurs economic growth. From aerospace to pharmaceuticals, from electronics to automobiles and throughout the supply chain, the manufacturing sector leads all others when it comes to R&D. Manufacturers spent more than $270 billion in R&D in 2018 or nearly two-thirds of all private sector R&D. This R&D supports good, high-paying jobs nationwide.

A looming tax change, however, threatens the ability of manufacturers to pursue the cutting-edge R&D that is necessary to ensure the health and prosperity in the U.S. Since 1954 businesses have been able to fully deduct their R&D expenses in the same year they are incurred. Yet starting in 2022, businesses will have to amortize or deduct these expenses over a period of years, making R&D more costly to conduct in the U.S. If not fixed, this tax change would penalize innovation at the worst possible time.

As R&D projects are planned years in advance, businesses are already having to account for this change, while concurrently struggling with pandemic-related liquidity challenges. This dynamic threatens to accelerate an expected reduction in U.S. innovation jobs. According to an Ernst & Young study, allowing R&D amortization to take effect would lead to a loss of more than 20,000 R&D jobs in the first five years, and when taking into account the spillover effect from R&D spending, nearly three times as many jobs would be affected.[2]

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[1] NAT'L ASS'N OF MANUFACTURERS, AMERICAN RENEWAL ACTION PLAN (2020), https://www.nam.org/wp-content/uploads/2020/04/v9-NAM-American-Renewal-Action-Plan.pdf.

[2] *See* ERNST & YOUNG, IMPACT OF THE AMORTIZATION OF CERTAIN R&D EXPENDITURES ON R&D SPENDING IN THE UNITED STATES at i (2019), https://investinamericasfuture.org/ey-impact-of-the-amortization-of-certain-rd-expenditures-on-rd-spending-in-the-united-states/.

The U.S. would be the only developed country with such an anti-R&D tax policy.[3] Among the advanced economies comprising the OECD, the U.S. currently ranks 26 out of 36 for R&D tax incentives – and will surely fall further behind if amortization takes effect.[4] Meanwhile, countries around the world are actively incentivizing R&D as part of their COVID-19 response. China, in particular, has made no secret of its plan to become the world leader in advanced manufacturing.

Accordingly, manufacturers respectfully request that you reverse the R&D amortization provision as part of any new COVID-19 legislation and advance proposals to expand and make the R&D tax credit more accessible. This would strengthen the manufacturing supply chain at a critical moment and ensure the U.S. remains a global leader in innovation.

On behalf of the men and women who make things in America, thank you for your attention to these proposals and to working to protect the lives and livelihoods of Americans.

Sincerely,

Chris Netram
Vice President
Tax and Domestic Economic Policy
National Association of Manufacturers

[3] *Id* at i.
[4] *Id* at ii.