ACEC

PROTECT R&D INNOVATION

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. For decades, innovation industries like engineering could deduct R&D expenses in the year they occurred, but now firms are forced to amortize those costs over five years. ACEC supports bipartisan legislation (H.R. 7024) that will restore the 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 research Congress created the related R&D tax credit in 1981. These long-standing provisions in the tax code have helped to promote innovation by mitigating the risks associated with leading-edge research that enhances the nation's competitiveness.

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.

R&D expenses are primarily payroll costs for the engineering industry, which have to be paid every two weeks but now can only be deducted over five years, causing cash flow burdens and creating a disincentive for innovation.

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.

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

ACEC urges the Senate to approve the Tax Relief for American Families and Workers Act (H.R. 7024) to restore the deductibility of R&D expenses.