DRAFT LETTER TO MEMBER OF CONGRESS – AMORTIZATION OF R&D EXPENSES

DATE

Dear Member of Congress:

 I am a business owner in STATE/CITY and wanted to write to you regarding a federal tax provision that is having a hard impact on my business – and many other small and medium businesses in my community. The tax provision requires businesses to amortize their research and development (R&D) expenses over at least five years – the provision (Section 174 of the tax code) is only just now becoming effective.

Historically, businesses were able to elect to either deduct immediately or amortize R&D expenses. The impact of this change in the law is significant for my business – hurting job growth, wages and productivity. In short, where historically my business could deduct immediately 100% of their R&D expenses – now in the first year of this new law, businesses will only be able to deduct 10% (and 20% per year after that). The impact on our bottom line is severe.

EXAMPLE For our business—a tool and die manufacturer with 70 employees -- we had $20 million dollars in gross revenue with 162 expenses of $14 million and 174 expenses of $4 million (and Section 41 – R&D tax credit) expenses of $2 million dollars. Last year, we had an R&D tax credit of $158,000 and had an overall tax liability of $434,000. This year, thanks to the change in the law, we will have a tax liability of $1,499,600 – an effective tax rate of 74.9%. You can easily imagine that these crushing numbers will have a dramatic impact on our ability to keep and retain – much less hire new employees – as well as the wages and benefits we provide. EXAMPLE – IN SHORT, USEFUL TO DESCRIBE BRIEFLY YOUR BUSINESS AND WITHOUT TOO MUCH DETAIL SHOW HOW AMORTIZATION WILL HAVE A DRAMATIC HIT ON BOTTOM LINE -- THAT IT WILL IMAPCT JOBS; RETENTION; HIRING, ETC.

I strongly encourage you and your colleagues to take immediate steps now to reverse this amortization provision and return to the long-time practice of allowing immediate expensing of R&D expenses. The current law requirement of amortization is particularly harmful to small and medium businesses – such as mine. At a time that we as a country are trying to encourage domestic manufacturing, on-shoring and innovation, I find it deeply troubling that Congress has put in place a tax provision that works directly counter to those goals and instead discourages innovation and job creation in this country.

 Thank you for your time and consideration of this matter. The failure to correct this provision will lead to less innovation, less research, fewer breakthrough products and services, lower employment and less growth. Smaller businesses which are the heart and soul of the American economy will face the greatest damage. Small and medium sized businesses throughout our state will long remember and appreciate your leadership on this critical business issue.  I look forward to reading your reply and your efforts to ensure that the crushing requirement of amortization of R&D expenses is withdrawn this year before it devastates American businesses and jobs.

 Sincerely,