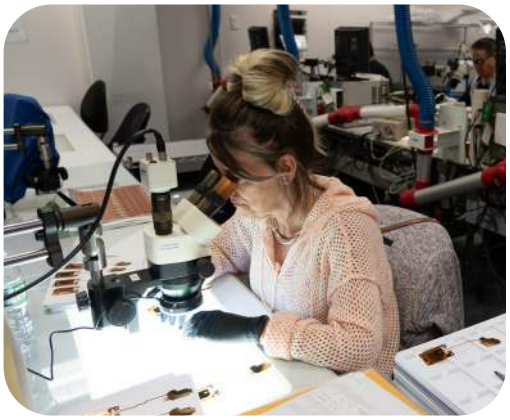
WHAT'S AT STAKE: RESEARCH AND DEVELOPMENT

94% of manufacturers believe it is important that the tax code reduce the cost of conducting R&D

82% of manufacturers said that immediate R&D expensing was important to the manufacturing sector

78% of manufacturers reported that tax changes increasing R&D costs would decrease the funds they have available to grow U.S. manufacturing activity

How does the tax code treat manufacturers' R&D expenses?



For more than 70 years, manufacturers in the U.S. could immediately expense their R&D spending, meaning that they could fully deduct their R&D expenses in the same year they were incurred. Congress enacted this policy to encourage manufacturers to develop new products, materials and processes that drive U.S. economic and scientific leadership.

Unfortunately, however, immediate R&D expensing expired in 2022—posing a real threat to manufacturing innovation in the U.S.

Why is immediate R&D expensing important to manufacturers?

American manufacturers drive more innovation than any other industry, with the manufacturing sector performing more than half of all private-sector R&D in the United States. In 2021, the last year immediate R&D expensing was in effect, manufacturers spent $340.5 billion on R&D.

Crucially, 75% of companies' R&D spending goes to workers' salaries—so sound R&D tax policy is first and foremost a jobs issue. For every $1 billion spent on R&D, 17,000 jobs are supported in the U.S.

Immediate R&D expensing reduces the cost of these vital R&D investments, making it easier and more efficient for manufacturers to conduct groundbreaking, job-creating research here in the United States.

How has the tax code's treatment of R&D changed?

Immediate R&D expensing expired in 2022. As a result, manufacturers can no longer immediately deduct their R&D spending, making research more costly to conduct. Instead, manufacturers now must claim fractions of the R&D tax deduction over multiple years, a concept known as amortization. R&D amortization delays the tax benefit associated with R&D, which reduces the incentive to undertake breakthrough research, increases costs and hampers innovation.

How has R&D amortization harmed manufacturers?

Requiring companies to amortize their R&D spending makes research more expensive—and it has resulted in significant cash flow impacts throughout the manufacturing industry, particularly for small businesses. Some companies have been forced to forego hiring, delay investments and take out loans to pay the higher tax bills. Ultimately, increasing the cost of R&D means reduced innovation and job creation here in the U.S.

How has R&D amortization impacted America's global competitiveness?

The U.S. is now one of only two developed countries requiring the amortization of R&D expenses. While America's tax code makes R&D more costly, China offers a 200% "super deduction" for R&D expenses.

	R&D Spending	Year One Tax Deduction	Corporate Rate	Year One Tax Savings
Immediate R&D Expensing (U.S., Pre-2022)	$1,000	$1,000	21%	**$210**
R&D Amortization (U.S., 2022 – Present)	$1,000	$100	21%	**$21**
200% Super Deduction (China)	$1,000	$2,000	25%	**$500**

In 2022, the first full year after immediate R&D expensing expired in the U.S., the European Union's R&D growth surpassed America's R&D growth for the first time in nearly a decade. Even more worrisome, China's R&D growth tripled that of the United States in 2022. The U.S. is falling behind our global competitors by making it more expensive for manufacturers to conduct R&D here in America.

What's at stake for R&D in 2025?

Congress has the opportunity to restore immediate R&D expensing as policymakers work to preserve other pro-growth tax provisions in 2025.

Congressional action is crucial, as manufacturers are already feeling the effects of R&D amortization. After growing at 6.6% per year on average over the five years before the amortization requirement took effect, R&D spending in the U.S. increased only 3.5% over the course of 2022 and decreased 0.1% in 2023—a concerning trend that could threaten America's leadership on the world stage.

What should Congress do to support and encourage manufacturing R&D and innovation?

Congress must act to reinstate immediate R&D expensing. Ensuring the tax code supports R&D will bolster innovation throughout the manufacturing industry and lead to increased job creation, improved economic growth and enhanced U.S. competitiveness.