Restore Immediate R&D Expensing to Support U.S. Manufacturing Innovation

American Chemistry Council

Since 1954, Section 174 of the federal tax code has allowed businesses to fully deduct qualified research expenses in the year they incurred these costs. Companies value present deductions because a deduction now means tax savings can be reinvested. Congress also created the R&D Tax Credit in 1981. Together, these provisions have incentivized U.S. chemical industry investment in innovation over many decades.

The Tax Cuts and Jobs Act of 2017 (TCJA) changed the way businesses deduct their R&D expenses. Starting in 2022, companies can no longer deduct 100% of R&D costs in the year incurred. Instead, they must amortize domestic R&D costs over five years. Requiring amortization of these expenses discourages domestic R&D activity, increases outlays, disrupts cash flow, and deters job creation. The requirement also burdens businesses with more complex tax planning and financial reporting.

Survey Findings

The American Chemistry Council (ACC) **conducted a survey of its member companies in June of 2024** to understand the effects of key provisions of the TCJA on their businesses and the likely impacts if these provisions are repealed or allowed to expire.

Successful research in the business of chemistry requires intensive effort and major expenditures. It takes years from the time a project is conceived to the time a chemical product is brought to the marketplace. Chemical companies invested more than $13 billion in R&D in 2022. Survey responses showed that the failure to restore immediate R&D expensing could have a significant impact.

Value of Immediate R&D Expensing to ACC Members

"Earlier this decade - before the TCJA ended immediate R&D expensing - **our company opened a new R&D facility in the U.S.**"

"As a multinational corporation with currently no R&D facilities in the U.S., **a more favorable R&D rule may encourage the company to expand US operations**."

"**R&D amortization creates liquidity problems for small businesses.** By forcing businesses to spread out deductions over several years, R&D amortization taxes income that does not exist"

– THE TAX FOUNDATION

63% of companies say immediate R&D expensing **has led to increased R&D investment by their company**, while 52% say the failure to restore immediate expensing would lead to reduced R&D investment by their company.

56% of companies say immediate R&D expensing **has increased the global competitiveness of their company**, while 56% say the failure to restore this provision would make their company less competitive globally.

44% of companies say immediate R&D expensing **has led their company to maintain or expand their U.S. operations**, while 22% say the failure to restore this provision would lead to reduced/offshored U.S. operations by their company.

41% of companies say immediate R&D expensing **has led to increased capital investment in the U.S. by their company**, while 48% say the failure to restore this provision would lead to reduced capital investment in the U.S. by their company.

30% of companies say immediate R&D expensing **has led to increased hiring by their company**, while 26% say the failure to restore this provision would lead to reduced hiring by their company.

"The corporate tax system should recognize and reflect the important role of U.S. manufacturing and the jobs it creates. Restoring the ability to immediately deduct R&D expenses is a key component."

CHRIS JAHN, ACC PRESIDENT & CEO

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