1156 15th St NW
Suite 502
Washington, DC 20005
www.sbtc.org

SBTC
Small Business Technology Council

January 16, 2025

The Honorable Jason Smith
Chair, US House Ways & Means Committee

The Honorable Richard Neal
Ranking Member, US House Ways & Means Committee

The Honorable Roger Williams
Chair, US House Committee on Small Business

The Honorable Nydia Velazquez
Ranking Member, US House Committee on Small Business

The Honorable Mike Crapo
Chair, US Senate Committee on Finance

The Honorable Ron Wyden
Ranking Member, US Senate Committee on Finance

The Honorable Joni Ernst
Chair, US Senate Committee on Small Business and Entrepreneurship

The Honorable Ed Markey
Ranking Member, US Senate Committee on Small Business and Entrepreneurship

As Congress considers comprehensive tax reform in 2025, The Small Business Technology Council (SBTC) urges legislators to prioritize restoring the Sec. 174 R&D Tax deduction in any tax legislation.

For over 70 years American small businesses could immediately deduct R&D expenses from their tax bill via Sec. 174. This deduction was ended in 2022, and since then the United States has been one of only a handful of developed countries in the world that does not allow an immediate deduction of R&D expenses.

This change is already having a chilling effect on American innovation, as firms look to lower their tax bill by reducing or in some cases eliminating their in-house R&D work. It is particularly burdensome small businesses like those participating in the SBIR and STTR programs, who often have a much higher percentage of their expenses going to R&D work. Many newer, smaller companies simply don't have the cash in hand to amortize potentially hundreds of thousands of dollars over five years. The firms that are hardest hit are early-stage high-growth companies that are not yet making a profit. The move to five-year amortization will further push these companies into negative territory in the near-term, limiting their ability to attract investment and obtain loans. For entities such as sole proprietorships, partnerships, and sub-s corporations, this tax obligation flows through directly to the individual owners.

For example, a typical SBIR Phase I grant is $250,000 and must be performed in one year, while a typical SBIR Phase II contract is up to $1.7 million and is performed in two years. This money must be spent on R&D and other related work, and can't be budgeted to pay tax expenses. While previously firms could deduct the entire amount immediately, they can now only deduct 10% of the total in the first year, and must pay taxes on the remainder as if it were income. While firms will eventually be able to amortize the money over 5 years, many brand-new startups and early stage firms simply don't have cash reserves or alternative revenue to pay the tens of thousands of dollars in taxes required in year 1 or 2, and could face bankruptcy.

Unless Congress acts swiftly to restore the Sec. 174 deduction, SBTC worries that the long-term effects to America's innovation economy could be devastating. Fewer small businesses and startups will want to incur the cost of R&D work, leaving it primarily to larger, established businesses who have the cash reserves and profits to amortize their taxes. Many small businesses will simply opt out of innovation programs like SBIR/STTR, resulting in less innovation and a reduction in STEM jobs.

Congress must work to quickly restore the Sec. 174 deduction to ensure that American small business can continue to contribute to America's innovation ecosystem. At the least, we ask you to consider an exception that would allow SBIR/STTR award funds to deduct their expenses on a Federal R&D contract in the year they occur. Without such action, the US would lose out on some of the most innovative and cutting-edge technology being produced in the world.

Thank you for your consideration,

Jere W. Glover

Jere W. Glover
Executive Director
Small Business Technology Council