RESTORING THE IMMEDIATE EXPENSING OF R&D

SUSTAINING HOPE FOR FUTURE TREATMENTS

CALIFORNIA LIFE SCIENCES

Congress must ensure California companies can invest maximal resources into R&D by passing the *American Innovation and R&D Competitiveness Act* (H.R. 1990).

NEW TREATMENTS AND TECHNOLOGIES DEPEND ON STRONG R&D

California institutions play a prominent role in supporting innovation and development of new products or therapies that benefit human health. Part of that is because the U.S. tax code incentivized long-term investments in innovation and technological breakthroughs by allowing businesses to deduct "research and experimentation" expenses in the same taxable year in which they were incurred.

However, in 2017, the *Tax Cuts and Jobs Act* (TCJA) modified Section 174 of the Internal Revenue Code so that, starting in 2022, businesses must amortize such expenses over five years for domestic expenditures or over 15 years for foreign expenditures.

CA LEADERSHIP IN R&D SPENDING

In 2021, life-sciences related R&D expenditures in CA totaled $7.1 billion, making up almost 14% of the entire U.S.' R&D expenditure.

REVERSAL OF INCENTIVES

The TCJA reversed 70 years of incentives for long term investments in R&D.

INCREASE IN UPFRONT TAXES CREATES ANOTHER HURDLE IN AN ALREADY DIFFICULT ENVIRONMENT

INNOVATIONS AT RISK

Increased tax burdens could be the difference between achieving a scientific or medical breakthrough or not.

VC IS CRITICAL TO CA

In 2022, CA received the largest amount of VC investment in life sciences of any state.

Life sciences innovation is lengthy, costly, and risky. Domestic R&D amortization diminishes an already shrinking pool of capital available to small, early-stage biotech and medtech projects. Smaller and newer businesses often claim losses in their early stages while they focus efforts on product development. This tax liability directly reduces the amount of resources they can devote to R&D.

This change also imposes a potentially devastating one-time tax burden on research-intensive start-up companies, as they can no longer use immediate expensing to offset payments from collaborative agreements or federal grants in pre-commercial stages of development.

In 2022, venture capital investments slowed significantly, as a larger upfront tax bill means large companies will have less funds to invest in the promising technologies being developed by smaller companies, leaving them with limited fundraising opportunities.

FIXING THE TAX CODE TO ALLOW THE IMMEDIATE EXPENSING OF R&D COSTS

Congress must pass the *American Innovation and R&D Competitiveness Act* – bipartisan legislation that would permanently restore the immediate expensing of R&D costs looking back to 2022, when the provision expired. By reinstating this immediate deduction, Congress is signaling its strong bipartisan support for ensuring that the tax code continues to support innovation.

Additionally, with key provisions of the TCJA expiring this year, Congress must include an R&D amortization fix in any conversation around tax reform as part of a budget reconciliation package.