Restoring the Immediate Expensing of Research and Development (R&D)

Congress must take action to ensure companies can resume investing maximal resources in critical R&D.

Fixing the Tax Code to Allow the Immediate Expensing of Domestic R&D Costs

The *Tax Relief for American Families and Workers Act of 2024*—a bipartisan, bicameral tax framework that would allow the immediate expensing of domestic R&D costs looking back to 2022— passed the House of Representatives by a vote of 357 to 70 on January 31, 2024. This legislative fix is currently awaiting Senate action.

Waiting until 2025 to address this issue creates uncertainty for life sciences organizations trying to stay afloat.

New Treatments and Technologies Depend on Strong R&D

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. The *2017 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.

The *TCJA* reversed **70 years** of incentives for long-term investments into R&D.

Increase In Upfront Taxes Creates Another Hurdle in an Already Inhospitable Environment

Biotech and MedTech projects are 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, and this tax liability directly reduces the amount of resources they can devote to R&D.

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