IMPACT OF DOMESTIC R&D AMORTIZATION ON THE BIOTECHNOLOGY COMMUNITY

Background

- Previously, **Section 174 of the Internal Revenue Code** allowed businesses to deduct "research and experimentation" expenses in the same taxable year in which they occurred.
- **The 2017 Tax Cuts and Jobs Act (TJCA)** modified Section 174 so starting in 2022, businesses could no longer deduct such expenses in the same taxable year. Currently, businesses must amortize such deductions over five years for domestic expenditures or over 15 years for foreign expenditures.

Impact on Biotechnology Community

Diminishes an already shrinking pool of capital available to small, early-stage biotech projects.

Biotech projects, such as drug developments, are lengthy, costly, and risky.

This **jump in upfront taxes occurs in an inhospitable investment environment**. In 2022, venture capital investments in biotech slowed significantly, larger industry companies pulled or are rolling back funding partnerships with smaller biotechs, leaving them with limited fundraising opportunities.

Mandatory capitalization of R&D costs will divert much needed funding away from R&D to the payment of income taxes.

- » A larger upfront tax bill means large companies will have less funds to invest in the promising technologies being developed by smaller companies.
- » Small companies without a product on the market may find themselves with a tax liability as they can no longer use immediate expensing to offset payments from collaboration agreements, or for SBIR and similar grants. As small R&D intensive companies typically direct most of their funds into R&D, this new tax liability directly reduces the amount of resources they can devote to research.

In terms of human health, a **weakened biotech ecosystem threatens the development of treatments** for both chronic and rare diseases such as Alzheimer's, Parkinson's, obesity, cardiovascular diseases with significant unmet need, and rare diseases.

Solution

- **The American Innovation and R&D Competitiveness Act of 2023 (S.866) (H.R. 2673)** would repeal this provision, restore the immediate expensing of R&D expenditures, removing a tax on innovation. The bipartisan legislation was introduced in the Senate on March 16, 2023, by Senators Maggie Hassan (D-NH) and Todd Young (R-IN) and in the House on April 19, 2023, by Representatives John Larson (D-CT-01) and Ron Estes (R-KS-04).

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