

January 25, 2024

The Honorable Chuck Schumer
Majority Leader
U.S. Senate
Washington, District of Columbia 20510

The Honorable Mitch McConnell
Minority Leader
U.S. Senate
Washington, District of Columbia 20150

The Honorable Mike Johnson
Speaker
U.S. House of Representatives
Washington, District of Columbia 20515

The Honorable Hakeem Jeffries
Minority Leader
U.S. House of Representatives
Washington, District of Columbia 20515

The Honorable Jason Smith
Chairman
Committee on Ways and Means
Washington, District of Columbia 20515

The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
Washington, District of Columbia 20515

RE: ACT | The App Association Support for The Tax Relief for American Families and Workers Act of 2024 (H.R. 7024)

Dear Leader Schumer, Leader McConnell, Speaker Johnson, Leader Jeffries, Chairman Smith, and Ranking Member Neal:

As we enter the tax filing season, American small business technology entrepreneurs and developers are grappling with persistent challenges that not only jeopardize job creation in the United States but also threaten to diminish our global competitiveness. ACT | The App Association is a global trade association for small and medium-sized technology companies. Our members are entrepreneurs, innovators, and independent developers within the global app ecosystem that engage with verticals across every industry. We work with and for our members to promote a policy environment that rewards and inspires innovation while providing resources that help them raise capital, create jobs, and continue to build incredible technology.

The App Association commends the House Ways and Means Committee's strong bipartisan support for and overwhelming passage of H.R. 7024, *The Tax Relief for American Families and Workers Act*. This bill is imperative in the effort to protect the vibrant ecosystem of small to medium-sized businesses and entrepreneurs in our membership. We applaud the thoughtful approach taken in crafting this legislation, which would allow businesses to focus on economic growth, talent acquisition, and innovation.

The App Association strongly supports The Tax Relief for American Families and Workers Act of 2024 (H.R.7024) to reinstate the ability for companies to deduct full research and development (R&D) expenses in the year in which it incurred. We urge every member of Congress to support this bipartisan, bicameral tax framework.

The legislation could not come at a more important time. Since 1954, the Internal Revenue Code's (IRC) Section 174 R&D provisions have enabled companies and entrepreneurs that conduct research and development to deduct these expenses in the year they were incurred.¹ Due to a budgetary adjustment in the 2017 Tax Cuts and Jobs Act (TCJA), this provision has lapsed as of 2022. Post-pandemic inflationary pressures, reduced access to capital investment, and declined economic confidence combine to put pressure on small business owners and force difficult decisions regarding their future viability. The passage of this legislation is crucial in supporting the R&D investments made by innovative companies. Allowing businesses to utilize Section 174 benefits to deduct full-expense R&D spending without amortization requirements would reinvigorate domestic capital investments and strengthen our American workforce.

One of our member companies, Rotational Labs, provides an illuminating example of the massive harm the changes in the R&D tax credit have caused for businesses. They came to the Hill this year for the first time to advocate on this issue because they faced a 480 percent increase in their tax bill. The surprise tax bill forced them to lay off developers, discontinue working with several independent contractors, and halt their growth plans to conserve cash to survive as a business in the short term. They won't survive another year if all software development continues to be classified under Section 174. Reinstating the previous R&D tax credit, even if only until 2025, will help companies like Rotational Labs continue to innovate and provide jobs.

At a time when countries around the world are providing R&D tax incentives for companies, this change puts U.S. small businesses at a competitive disadvantage. The amortization requirement poses a threat to our national security if not reversed. As the National Science and Technology Council noted, R&D investments "are essential to ensure that the United States remains able to secure and protect the American people in the face" of other countries' increased support for R&D.² To strengthen our competitive advantage in technology innovation, we seek to foster an ecosystem that is favorable to the dynamic and flexible nature of our small innovators. While a permanent provision allowing full expensing would be preferable, we appreciate the temporary relief proposed in H.R. 7024. This bipartisan and bicameral legislation addresses the immediate needs of small businesses, as highlighted by Representative Mike Kelly (R-PA-16), who emphasized: "This bipartisan pro-growth tax bill will allow businesses of all shapes and sizes to continue to deduct the cost of research and development here in the U.S. immediately... R&D alone

¹ *Federal Research Tax Credit: Current Laws and Policy Issues*, Congressional Research Service, <https://crsreports.congress.gov/product/pdf/RL/RL31181>

² Subcommittee on Research and Development Infrastructure, Committee on Science and Technology Enterprise of the National Science and Technology Council, *National Strategic Overview for Research and Development Infrastructure in 2021* (pg.23)

has created never-before-seen levels of new jobs in the U.S. by keeping jobs here in America and supporting the U.S. economy. Small business owners are the backbone of this economy and keeping them on the forefront of the bill is critical.” Representative Jimmy Panetta (D-CA-19) also highlighted that “the R&D tax credit will literally save small businesses in my district from either having to take out personal loans to cover their tax payments, or consider closing for good,” during the Ways and Means markup.

We urge Congress to act promptly to ensure that the tax code continues to support innovation. Doing so is essential for maintaining America’s global leadership in innovation and bolstering American economic security. Supporting the flexible and dynamic nature of our small business innovators is critical in keeping pace in the global race for R&D. The tax relief measures proposed in H.R. 7024 will undoubtedly have a positive impact on our members, allowing them to reinvest in their businesses, expand operations, and create new job opportunities. Small businesses are the backbone of our economy and providing them with the necessary tools and resources to succeed is paramount for sustained economic growth.

Sincerely,

A handwritten signature in black ink that reads "Morgan Reed". The signature is written in a cursive, flowing style.

Morgan Reed
President

ACT | The App Association