April 16, 2021

The Honorable Ron Wyden
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Mike Crapo
Ranking Member
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Richard Neal
Chairman
House Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

The Honorable Kevin Brady
Ranking Member
House Committee on Ways and Means
1139 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Wyden, Chairman Neal, Ranking Member Crapo, and Ranking Member Brady:

On behalf of the undersigned taxpayer, free-market, and consumer advocacy organizations, we ask you to prioritize and pass a number of tax relief measures this year that will aid in America's economic recovery from the COVID-19 pandemic. Pro-growth tax policy that boosts GDP, jobs, and wages should be a legislative priority at any time but has taken on an added importance as policymakers look to help businesses and workers return to the economic gains of the pre-COVID U.S. economy.

Specifically, we hope your Committees and Congressional leadership will prioritize the following this year:

- **Legislation to make permanent the full and immediate expensing provisions of the 2017 tax law (Section 168(k) of the Internal Revenue Code)**: Under current law, businesses can reduce their tax obligations by the full cost of investments in certain short-lived assets (such as machinery and equipment) in the year they make those investments, also known as bonus depreciation. Unfortunately, the benefits of bonus depreciation are scheduled to begin phasing out in 2023 and will fully phase out by 2027. The currently scheduled phase-out could chill incentives for businesses to invest in the equipment that makes workers more productive and ultimately grows wages. A recent report by the Joint Committee on Taxation (JCT) indicates that businesses in the management, financial, information, wholesale and retail, and manufacturing sectors would be particularly hard hit by this change in the law.[1] JCT also found that small and medium-sized businesses reported $89 billion and $80 billion, respectively, in bonus depreciations in 2017, suggesting that the phase-out of this provision would harm these businesses too.[2] The Accelerate Long-term Investment Growth Now (ALIGN) Act, introduced by Sen. Pat Toomey (R-PA)[3] and Rep. Jodey Arrington (R-TX),[4] would make permanent the full and immediate expensing provisions of the 2017 tax law. Our organizations strongly support this legislation.

- **Legislation to ensure businesses can continue to fully and immediately expense research and development (R&D) costs (Section 174)**: Another important cost recovery provision under current law is Section 174 of the Internal Revenue Code, which allows businesses to fully and immediately expense their research and development (R&D) costs. Unfortunately, this benefit is scheduled to expire at the end of 2021. Starting in 2022 businesses will need to amortize their R&D costs, spreading out their cost recovery over five years. The same JCT report cited above found that "research tax incentives substantially boost R&D spending," and that government interventions in research, such as the full and immediate cost recovery allowed by Section 174, "may improve overall economic efficiency."[5] This is perhaps one reason why undoing the 2022 change to five-year amortization of R&D costs has enjoyed bipartisan support in Congress. The American Innovation and Competitiveness Act (AICA), from Reps. John Larson (D-CT) and Ron Estes (R-KS),[6] and the American Innovation and Jobs Act, from Sens. Maggie Hassan (D-NH) and Todd Young (R-IN),[7] would each take an important, pro-growth, and pro-innovation step forward by allowing businesses to continue fully and immediately expensing R&D costs in 2022 and beyond.

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1 See Table 4.–Bonus Depreciation by Industrial Sector, 2017 in: Joint Committee on Taxation. (March 12, 2021). "Tax Incentives for Domestic Manufacturing." Retrieved from: https://www.jct.gov/publications/2021/jcx-15-21/.
2 See Table 6.–Bonus Depreciation by Size of Business Receipts, 2017 in: Joint Committee on Taxation. (March 12, 2021). "Tax Incentives for Domestic Manufacturing." Retrieved from: https://www.jct.gov/publications/2021/jcx-15-21/.
3 Congress.gov. (Introduced February 13, 2020). "S. 3296 - ALIGN Act." Retrieved from: https://www.congress.gov/bill/116th-congress/senate-bill/3296/text (Accessed March 25, 2021.)
4 Congress.gov. (Introduced May 12, 2020). "H.R. 6802 - ALIGN Act." Retrieved from: https://www.congress.gov/bill/116th-congress/house-bill/6802/text (Accessed March 25, 2021.)
5 Joint Committee on Taxation. (March 12, 2021). "Tax Incentives for Domestic Manufacturing." Retrieved from: https://www.jct.gov/publications/2021/jcx-15-21/.
6 Congress.gov. (Introduced February 24, 2021). "H.R.1304 - To amend the Internal Revenue Code of 1986 to restore the deduction for research and experimental expenditures." Retrieved from: https://www.congress.gov/bill/117th-congress/house-bill/1304/text (Accessed March 25, 2021.)
7 Congress.gov. (Introduced March 15, 2021). "S.749 - A bill to amend the Internal Revenue Code of 1986 to enhance tax benefits for research activities." Retrieved from: https://www.congress.gov/bill/117th-congress/senate-bill/749/text (Accessed March 25, 2021.)

- **Legislation to ensure depreciation and amortization costs continue to count towards business income for purposes of the business interest deduction (Section 163(j))**: A final measure Congress should consider is the 2022 expiration of a certain method businesses use to calculate their income for the purposes of deducting interest payments from their tax obligations. This provision, Section 163(j) of the Internal Revenue Code, allows businesses to deduct interest up to a certain limit, which includes 30 percent of adjusted taxable income (ATI). Under current law, ATI is calculated by taking a business's earnings before interest, taxes, depreciation, and amortization (EBITDA). Starting in 2022, ATI is limited to 30 percent of earnings before interest and taxes (EBIT), which reduces the amount of interest deductions businesses can take. According to JCT, the U.S. manufacturing industry was the top industry (among C corporations) to take advantage of the interest deduction in 2016, with interest deductions valued at more than $180 billion.[8] A separate JCT estimate finds the changes will more than double the tax revenue brought in by the federal government from these businesses, from $4.8 billion in 2021 to $11.4 billion in 2022, escalating to $15.9 billion in 2023 and $18.1 billion in 2024.[9] That tax revenue could be put to better use by these businesses investing in their workers, new equipment, R&D, and more. Congress should consider extending the EBITDA definition in Section 163(j) beyond 2021, and Sens. Roy Blunt (R-MO), Rob Portman (R-OH), James Lankford (R-OK), and Jim Inhofe (R-OK) have legislation, the Permanently Preserving America's Investment in Manufacturing Act, to do just that.[10]

If Congress accomplishes all three of the above initiatives, they could spur significant growth in the U.S. economy, jobs, and wages, at just the time businesses need additional confidence to invest in the American recovery from COVID-19. Should your Committees be interested in advancing any of the above, we would be pleased to work with you and other champions in Congress to ensure these bills are signed into law in 2021. Thank you for your consideration.

Sincerely,

National Taxpayers Union

60 Plus Association

Association of Mature American Citizens Action

American Consumer Institute

Americans for a Balanced Budget

Americans for Prosperity

Americans for Tax Reform

Center for a Free Economy

Center for Freedom and Prosperity

Center for Individual Freedom

Center for Innovation and Free Enterprise

Competitive Enterprise Institute

Consumer Action for a Strong Economy

Council for Citizens Against Government Waste

FreedomWorks

The Heartland Institute

Hispanic Leadership Fund

Independent Women's Forum

Independent Women's Voice

Institute for Liberty

Institute for Policy Innovation

R Street Institute

Taxpayers Protection Alliance

CC: Members of the Senate Committee on Finance
Members of the House Committee on Ways and Means
The Honorable Charles Schumer, Majority Leader of the Senate
The Honorable Nancy Pelosi, Speaker of the House of Representatives
The Honorable Mitch McConnell, Minority Leader of the Senate
The Honorable Kevin McCarthy, Minority Leader of the House of Representatives

[8] Joint Committee on Taxation. (March 12, 2021). "Tax Incentives for Domestic Manufacturing." Retrieved from: https://www.jct.gov/publications/2021/jcx-15-21/.

[9] Joint Committee on Taxation. (March 9, 2021). "Estimated Revenue Effects Of H.R. 1319, The "American Rescue Plan Act Of 2021," As Amended By The Senate, Scheduled For Consideration By The House Of Representatives." Retrieved from: https://www.jct.gov/publications/2021/jcx-14-21/.

[10] Senator Roy Blunt. (April 15, 2021). "Blunt, Portman, Lankford, Inhofe Introduce Legislation to Support U.S. Manufacturers." Retrieved from: https://www.blunt.senate.gov/news/press-releases/blunt-portman-lankford-inhofe-introduce-legislation-to-support-us-manufacturers (Accessed April 16, 2021.)