Carbon Business Council

June 7, 2023

The Honorable Jason Smith
Chairman
US House Ways & Means Committee
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
US House Ways & Means Committee
Washington, DC 20515

The Honorable Ron Wyden
Chairman
US Senate Committee on Finance
Washington, DC 20510

The Honorable Mike Crapo
Ranking Member
US Senate Committee on Finance
Washington, DC 20510

RE: Supporting Innovation by Amending 2017 Tax Cuts and Jobs Act Changes to IRC 174

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

The Carbon Business Council is a nonprofit trade association of more than 90 carbon management companies, and we write to request restoration of the IRC 174 same-year full deductibility of research and development (R&D) expenses, which was modified by the 2017 Tax Cuts and Jobs Act (TCJA).

The revised IRC 174, which now requires five-year amortization of R&D expenses, went into effect with the 2022 tax year and is already having a highly adverse effect on the ability of the carbon management and other U.S. tech sectors to innovate, advance, and scale. In a new commercial sector such as carbon management, early stage companies invest significant sums into R&D that is often funded by non-dilutive grant funding from private- and public-sector sources. The inability to deduct these expenses in the tax year they occur creates unsustainable tax liability for early stage companies who do not yet have the profits to support such a large tax liability.

Unless Congress acts swiftly to restore the IRC 174 deduction, the long-term effects to carbon management and other emergent tech sectors of the U.S. economy could be devastating. Early-stage companies will be forced to reduce investment in innovation, stop applying for (or even turn down) grants, and seek to move R&D operations to more favorable tax jurisdictions, thereby reducing American competitiveness.

Considering these potentially devastating outcomes, the Carbon Business Council and its membership respectfully yet urgently request that Congress move swiftly to remedy the situation and restore the same-year deductibility of R&D expenses under IRC 174. We thank you in advance for your prompt attention to this matter, and would be happy to make the Council leadership and its members available for discussion at any point when that would be helpful.

Sincerely,

Benjamin Rubin

Ben Rubin, Executive Director
Carbon Business Council