



May 5, 2021

Senate Democratic Leader Chuck Schumer

United States Senate
S-230 U.S. Capitol
Washington, D.C. 20510

Senate Republican Leader Mitch McConnell

United States Senate
S-221 U.S. Capitol
Washington, D.C. 20510

Speaker Nancy Pelosi

United States House of Representatives
H-232 U.S. Capitol
Washington, DC 20515

House Republican Leader Kevin McCarthy

United States House of Representatives
H-204 U.S. Capitol
Washington, DC 20515

Dear Leader Schumer, Republican Leader McConnell, Speaker Pelosi and Republican Leader McCarthy:

We greatly appreciate the renewed focus on bolstering research and development (R&D) activities to advance U.S. technological leadership. We are writing to share with you a looming issue that will have negative consequences on those efforts, and to request your support for resolving this problem.

Specifically, the Aerospace Industries Association (AIA) and its member companies urge repeal of the new US tax requirement in 2022 to capitalize and amortize R&D expenses. This change to the tax code will negatively impact manufacturing and innovation investment by US industry by increasing the after-tax cost of performing R&D.

Since 1954, through Section 174 of the Internal Revenue Code, American businesses could immediately deduct qualifying R&D expenditures in the year incurred for federal tax purposes. Beginning in tax year 2022, the tax code requires companies to amortize those expenses over a number of years. Aerospace and defense companies will immediately have billions of dollars less to invest in work that supports domestic scientific and engineering jobs and provides the vital technological edge to our warfighters.

If this change goes into effect, the United States would be one of only two nations in the developed world with such a tax policy. It will discourage R&D investment in the United States and hurt U.S. innovation at a time when our economy and the supply chain is recovering from the Covid-19 pandemic. Our ability to compete globally in high-technology fields, with China in particular, remains a growing concern.

President Biden has proposed significant public investment increases in R&D that could benefit many sectors of our economy. However, these investments would have greater impact if they complement the current level of industry R&D rather than substitute for it. Making industry innovation more expensive will undermine the goals of increased government investment in R&D and adversely impact the ability of U.S. companies to compete in an increasingly global marketplace.

Bipartisan legislation in both the House and Senate (H.R. 1304 and S. 749) has been introduced to remove the requirement to amortize R&D expenses starting in 2022. By repealing this new provision, these bills would provide much-needed relief to all sectors of the U.S. economy, including aerospace and defense. We applaud the many Members of Congress who have already agreed to cosponsor these bills.

As you work to reinvigorate the economy following the pandemic, we urge you to include language that repeals the looming change requiring capitalization and amortization of R&D expenses in any appropriate legislative vehicle this year. It is critical that such legislation be enacted by the end of this year to avoid negative impacts



to not only the aerospace and defense sector of our economy, but all sectors that conduct U.S.-based R&D. Even providing retroactive relief early in 2022 would prove extremely disruptive to current and planned investment, given the multi-year nature of R&D initiatives.

Thank you again for your leadership on R&D issues. We look forward to working with you to resolve this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Eric Fanning".

Eric Fanning
President & CEO
Aerospace Industries Association

A handwritten signature in black ink, appearing to read "Kathy J Warden".

Kathy Warden
Chairman, CEO & President
Northrop Grumman Corporation

A handwritten signature in black ink, appearing to read "Mike Petters".

Mike Petters
President & CEO
Huntington Ingalls Industries

- Cc: The Honorable Richard Neal, House Chair, Committee on Ways and Means
 The Honorable Kevin Brady, Ranking Member, House Committee on Ways and Means
 The Honorable Ron Wyden, Chair, Senate Committee on Finance
 The Honorable Mike Crapo, Ranking Member, Senate Committee on Finance
- Cc: Members of House and Senate National Security and Science Committees