



January 17, 2024

The Honorable Mike Johnson
Speaker of the House
U.S. House of Representatives
H232, U.S. Capitol
Washington, D.C. 20515

The Honorable Hakeem Jeffries
Democratic Leader
U.S. House of Representatives
H-204, U.S Capitol
Washington, D.C. 20515

The Honorable Charles Schumer
Majority Leader
United States Senate
S-221, U.S. Capitol
Washington, D.C. 20510

The Honorable Mitch McConnell
Republican Leader
United States Senate
S-230, U.S. Capitol
Washington, D.C. 20510

Dear Speaker Johnson, Minority Leader Jefferies, Majority Leader Schumer, and Minority Leader McConnell:

As strengthening United States competitiveness continues to be at the forefront of issues facing the country, it is crucial that Congress act as soon as possible in 2024 to restore full and immediate deductibility of research and development (R&D) expenses. Specifically, we are asking for a two-year retroactive (at the election of the taxpayer), and two-year prospective restoration of first year deductibility of R&D. Five-year amortization of R&D has now been in place for more than two years in the U.S. Our member companies and their millions of U.S. employees need action now to correct this.

For almost 80 years, until 2022, motor vehicle and component manufacturers relied on the availability of full first-year deductibility of R&D expenses. Quick restoration of this important tool will enhance U.S. job creation, innovation, and national security. It will also help ensure that major innovations in our sector – such as those fueling the electric vehicle and other zero emission technologies, automated vehicles, and the connected vehicle future – can be led from the United States.

The motor vehicle and component sector comprise the largest percentage of output in U.S. durable goods manufacturing. The 9.6 million jobs (direct, indirect, and induced) supported by the automotive ecosystem represent 4.9 percent of total U.S. employment and more than \$650 billion in payroll compensation annually.

Nearly one in 20 U.S. jobs are supported by the motor vehicle industry. Further, of the yearly \$538 billion spent on R&D activities in the United States in 2020, more than \$23 billion (4.3 percent) was invested by the motor vehicle industry - the third highest for any manufacturing industry group. About 84 percent, or nearly \$21 billion of U.S. R&D investment in motor vehicles comes from the motor vehicle industry.



Less than one percent is contributed by the federal government. In fact, more than one in ten motor vehicle jobs are in the R&D space.

From 1954 until 2021, the U.S. tax code recognized the importance of R&D by allowing businesses to fully deduct their R&D expenses in the same year they occurred. Unfortunately, since January 1, 2022, businesses have been required to deduct these expenses over a period of five years, making R&D exponentially more costly to conduct in the U.S.

Without a restoration of this vital tax provision, the U.S. risks falling further behind global competitors' support for critical private sector R&D. For example, China provides a "super deduction" of 200 percent for R&D expenses and generous subsidies to encourage R&D. For every \$1,000 of R&D expenses, China allows \$2,000 in deductions in the first year. In addition, the European Union, on average, has greater incentives for R&D than current U.S. law.

Restoration of this deduction is, therefore, vital to U.S. competitiveness and national security. As the National Science and Technology Council noted, "...as other nations dramatically increase their R&D expenditures, [sustained U.S. R&D investments] are essential to ensure that the United States remains able to secure and protect the American people in the face of this increased competition."¹

Motor vehicle and parts manufacturers operate in an intensely competitive global industry and have to make strategic choices about investments around the world. The United States has long been a leader in automotive R&D, and strong U.S. intellectual property laws, reasonable corporate tax rates and recently passed competitiveness legislation provide added incentives for sustained R&D investments in the United States. However, full R&D expensing is a necessary building block for progress.

On behalf of our collective members, their employees, and the communities in which they operate, we urge you to work together to include this bipartisan R&D fix in any pending tax package.

Thank you, in advance, for your support in getting the R&D fix across the finish line early this year. Please let us know if you have any questions about the importance of this issue to the motor vehicle and parts sector.

Sincerely,

Alliance for Automotive Innovation

MEMA, The Vehicle Suppliers Association

American Automotive Policy Council

Truck and Engine Manufacturers Association

Autos Drive America

¹ "NATIONAL STRATEGIC OVERVIEW FOR RESEARCH AND DEVELOPMENT INFRASTRUCTURE," NATIONAL SCIENCE AND TECHNOLOGY COUNCIL, Office of the President, October 2021