



# MAINTAINING AMERICA'S LEADERSHIP THROUGH RESEARCH AND DEVELOPMENT INVESTMENT

America's global edge hinges on relentless innovation fueled by robust investment in research and development. Recent tax policies have sparked unprecedented growth and reinvestment at home, but the race is far from over as adversaries in China and elsewhere develop grand strategies to close the innovation gap. To secure our future, we must protect these gains and remove other barriers that are holding back American ingenuity.

## PRIORITY 1 PRESERVE RECENT GAINS

Tax reforms have fueled a surge in domestic investment and innovation. Lawmakers on both sides should preserve these recent advancements in upcoming tax talks, including:

### Corporate Tax Rate Reduction

Lowering the corporate tax rate from 35% to 21% freed up capital for U.S. businesses, leading to a 20% increase in domestic investment and the repatriation of \$2.5 trillion in overseas earnings. Data shows that each 1 percentage point reduction in the corporate tax rate correlates with 2.8% more patents, 2.4% more patent citations, and 2.3% more inventors.

### Foreign-Derived Intangible Income (FDII) Impact

Reducing the tax rate on intangible-related income from exports to 13.125% incentivized multinational companies to shift a larger share of their global pre-tax earnings to the U.S., increasing the domestic corporate income tax base by \$112 billion in 2022 alone.

### Increased Domestic Innovation

In 2018, nearly 4,000 companies claimed \$52 billion in FDII deductions, with the manufacturing sector accounting for 65% of the total. Additionally, payments to U.S. corporations for use of patents and other intangible property (IP) more than doubled, from \$190 billion in 2017 to \$386 billion in 2021, reflecting increased IP repatriation and domestic investment.

## PRIORITY 2 REFORM R&D AMORTIZATION

The Tax Cuts and Jobs Act (TCJA) requires companies to amortize R&D expenses over several years instead of deducting them fully in the year incurred, imposing a de facto tax penalty. While bipartisan support exists for reform, consensus on implementation remains elusive.

### The Case for Immediate Action

This amortization provision discourages R&D investment due to the time value of money and inflation, eroding America's competitive advantage. If unaddressed, it could result in a \$4.1 billion annual decline in R&D spending and the loss of 23,000 R&D jobs each year over the next five years.

## THE PATH FORWARD

To ensure the U.S. remains the world's top innovator, policymakers must safeguard recent tax reforms and eliminate barriers to R&D investment. By prioritizing these policies, we can secure America's economic leadership and drive the innovations that will shape the future.