



December 12, 2022

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
H-232, The Capitol
Washington, D.C. 20515

The Honorable Kevin McCarthy
Republican Leader
U.S. House of Representatives
H-204, The Capitol
Washington, D.C. 20515

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

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

Dear Speaker Pelosi, Minority Leader McCarthy, Majority Leader Schumer, and Minority Leader McConnell:

As strengthening U.S. competitiveness continues to be at the forefront of issues facing the country, it is crucial that Congress act in 2022 to restore, from the beginning of 2022, full and immediate deductibility of research and development (R&D) expenses in the same year they are incurred. For almost 80 years, until 2022, motor vehicle and component manufacturers relied on the availability of full first-year deductibility of research and development 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 (EV), automated vehicle (AV), and connected vehicle future can be led from the United States.¹

The motor vehicle and component sector comprise the largest percent 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 auto industry. Further, of the nearly \$538 billion spent on research and development 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 industry. Less than one percent is contributed by the federal government. In fact, more than one in 10 motor vehicle jobs are in the research and development space.

From 1954 until 2021, the U.S. tax code recognized the importance of research and development by allowing businesses to fully deduct their R&D expenses in the same year they occurred. Unfortunately,

¹ For the purposes of this letter, the term electric vehicles includes plug-in and plug-in hybrid EVs as well as fuel cell technologies.



since January 1, 2022 businesses have been required to deduct these expenses over a period of 5 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."²

Motor vehicle and parts manufacturers operate in an intensely competitive global industry and have to make strategic choices about investments around the world. The U.S. has long been a leader in automotive R&D and strong U.S. intellectual property (IP) laws, reasonable corporate tax rates and recently passed competitiveness legislation provide added incentives for sustained R&D investments in the U.S. 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 year-end package. Thank you, in advance, for your support and 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

American Automotive Policy Council

Autos Drive America

Motor & Equipment Manufacturers Association

Truck & Engine Manufacturing Association

² "NATIONAL STRATEGIC OVERVIEW FOR RESEARCH AND DEVELOPMENT INFRASTRUCTURE," NATIONAL SCIENCE AND TECHNOLOGY COUNCIL, Office of the President, October 2021