

**Congress of the United States**  
**U.S. House of Representatives**  
**Committee on Small Business**  
2561 Rayburn House Office Building  
Washington, DC 20515-6515

June 12, 2023

The Honorable Jason Smith  
Chairman  
House Ways and Means Committee  
1139 Longworth House Office Building  
Washington, D.C. 20515

The Honorable Richard Neal  
Ranking Member  
House Committee on Ways and Means  
1129 Longworth House Office Building  
Washington, D.C. 20515

Dear Chairman Smith and Ranking Member Neal:

On June 6, 2023, the House Committee on Small Business, Subcommittee on Economic Growth, Tax, and Capital Access held a hearing entitled, “American Ingenuity: Promoting Innovation Through the Tax Code.” This hearing focused on the impact of changes to the tax code on small businesses—in particular, the changes to Research and Development (R&D) expensing and bonus depreciation.

The hearing featured testimony from a small manufacturer, a family farmer, and a tax expert, all of whom offered diverse perspectives on how R&D expensing and bonus depreciation are critical to innovation in the United States. Prior to 2022, businesses were able to fully expense qualifying R&D expenditures in the year in which they occurred. Now businesses must capitalize and amortize these expenditures over five years. As a result, many small businesses have been hit with much higher tax bills than they may have anticipated. Bonus depreciation is also set to decrease by 20 percent annually until it hits 0 percent in 2027.

Ms. Julie Masser Ballay, Vice President and Chief Financial Officer of Sterman Masser Inc., a family owned and operated farm in Sacramento, Pennsylvania, testified: “As a family business, the concern always exists that we will not be able to keep pace with larger companies or with rising costs, while still addressing the needs of our employees. With a tight labor market in our region, we are always looking for ways to improve the work environment for our employees, improving safety and efficiency. Innovation allows us to be in a position to compete for employees and create higher-paying positions.”

Mr. Bill Wydra, the President of Ashland Technologies in Hegins, Pennsylvania testified: “The proposed tax changes scheduled to go into effect regarding bonus depreciation and research and development tax credits will add one more significant mark for the negative column as we weigh these decisions and would most likely put a stop to these for several years or potentially permanently. Cash flow is always tight for most small businesses and this is particularly true of manufacturers who are much more capital intensive.”

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Prior to 2022, China's R&D tax incentive was 2.7 times more generous than the U.S. and since then the U.S. has fallen even further behind. To compete on the world stage, we must incentivize innovation through the tax code and fully utilize the innovative capacity of Main Street America. Otherwise, we will only continue to fall behind our adversaries in the innovation economy.

Small businesses are the economic engine of the American economy. As the Ways and Means Committee marks up the most recent economic package, better known as the Build It in America Act, we hope that these business's voices will be taken into account.

Sincerely,



Roger Williams  
Chairman  
House Committee on Small Business



Dan Meuser  
Chairman  
Subcommittee on Economic Growth,  
Tax, and Capital Access