Dear Senator/Congressman/Congresswoman,

I am writing out of extreme concern for proposed IRS Guidelines to Section 174 of the IRS Code. If the proposed IRS Guidelines are enforced, an entire industry of R&D companies, including mine, are at risk of bankruptcy. More specifically, small businesses that contract with the federal government to develop cutting edge technology, medical advancements, and critical resources for our military have almost no chance of keeping their doors open if the IRS enforces their proposed guidelines to section 174.  I am pleading with you to engage this issue with Congress and fight against mandatory capitalization of contract Research and Development expenses for all businesses.

To better illustrate the financial predicament companies will find themselves in due to this IRS proposed interpretation of section 174, I’ve put together a reasonable scenario that demonstrates how capitalizing contract R&D expenditures impacts taxable income, and ultimately creates a tax liability that small/most businesses cannot cover.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  | **Company XYZ** | NO Section   174 | Section 174 |  |  |  |  |  |
|  |  | Year 1 | Year 1 |  |  |  |  |  |
|  | Income | $    500,000.00  |  $ 500,000.00  |  |  |  |  |  |
|  | R&D Expenses | $    450,000.00  |  $   90,000.00  | \*\*$450k of expenses but only allowed to recognize 20% with a 5-year cap table\*\* |  |
|  | Other Expenses | $      15,000.00  |  $   15,000.00  |  |   |   |  |
|  |  |  |  |  |  |  |  |  |
|  | TAXABLE Net Income | $      35,000.00  |  $ 395,000.00  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |

As you can see, many businesses would be forced to close if they kept facing a large tax liability year over year.  As R&D is the lifeblood of this country, the economic impact would most certainly be devastating.  Please investigate this issue and take action to reverse these IRS Guidelines for your many constituents that are threatened by this proposed IRS interpretation and enforcement of section 174.

Thank you for your attention to this matter.

Sincerely,