SMALL SOFTWARE BUSINESS ALLIANCE

April 9, 2025

The Honorable Roger Williams
Chairman
Committee on Small Business
United States House of Representatives
Washington, District of Columbia 20515

The Honorable Nydia Velázquez
Ranking Member
Committee on Small Business
United States House of Representatives
Washington, District of Columbia 20515

The Honorable Joni Ernst
Chair
Committee on Small Business and Entrepreneurship
United States Senate
Washington, District of Columbia 20510

The Honorable Ed Markey
Ranking Member
Committee on Small Business and Entrepreneurship
United States Seante
Washington, District of Columbia 20510

RE: Statement for the Record for Joint House and Senate Hearing "Prosperity on Main Street: Keeping Taxes Low for Small Businesses" and Support for Passage of the American Innovation and R&D Competitiveness Act of 2025 (H.R. 1990)

Dear Chairman Williams, Ranking Member Velázquez, Chair Ernst, Ranking Member Markey, and Members of the Committees:

We applaud your leadership in holding the April 8, 2025, joint hearing on "Prosperity on Main Street: Keeping Taxes Low for Small Businesses" and appreciate this opportunity to weigh in on behalf of our coalition members. As we near the end of another tax filing season, American small business technology startups and developers are grappling with persistent challenges that not only jeopardize job creation in the United States but also threaten to diminish our global competitiveness. The Small Software Business Alliance (SSBA) is a coalition of small business owners fighting to restore immediate expensing of research and development (R&D) investments and prevent tax rules from disrupting the future of small tech companies and innovation in America. Coalition members are entrepreneurs, innovators, and independent developers within the global app ecosystem that engage with verticals across every industry. We work with and for our members to promote a policy environment that rewards and inspires innovation while providing resources that help them raise capital, create jobs, and continue to build incredible technology.

Since 1954, the IRC section 174 R&D provisions have enabled companies and entrepreneurs that conduct R&D to deduct these expenses in the year they were incurred.[1] Due to a provision of the 2017 Tax Cuts and Jobs Act (TCJA), this provision has lapsed as of 2022. Small business entrepreneurs and innovators now face substantial obstacles that not only jeopardize job creation in the United States but also threaten to diminish our global competitiveness. Small app companies, which do not have the same resources as larger companies to hire a team of accountants, are now required to spread the deduction of these expenses over five years (15 years for non-U.S. companies). This, unfortunately, marks the first time in 70 years that businesses find themselves unable to immediately claim the full value of eligible R&D expenses when filing their taxes. This unexpected turn placed significant burdens on small businesses trying to compete; post-pandemic inflationary pressures, reduced access to capital investment and diminished economic confidence have combined to put pressure on small business owners and force difficult decisions regarding their current operations and future plans.

As a result of these changes, the United States is one of only two developed countries requiring the amortization of R&D expenses.[2] Meanwhile, competing countries like China currently provide super deductions for R&D expenses, allowing companies to deduct a total of 200 percent of their R&D expenses before tax.[3] At a time when countries around the world are providing R&D tax incentives for companies, this change puts U.S. small businesses at a competitive disadvantage. The amortization requirement also poses a threat to our national security if not reversed. As the National Science and Technology Council noted, R&D investments "are essential to ensure that the United States remains able to secure and protect the American people in the face" of other countries' increased support for R&D.[4] To strengthen our competitive advantage in technology innovation, we seek to foster an ecosystem that is favorable to the dynamic and flexible nature of our small innovators. Allowing businesses to utilize Section 174 benefits to deduct full-expense R&D spending without amortization requirements would reinvigorate domestic capital investments and strengthen our American workforce.

In the 118th Congress, the SSBA enthusiastically supported the House Ways and Means Committee's overwhelming, bipartisan passage of the *Tax Relief for American Families and Workers Act of 2024* (H.R. 7024). We urge Congress to build on this important progress and

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[1] *Federal Research Tax Credit: Current Laws and Policy Issues,* Congressional Research Service, https://crsreports.congress.gov/product/pdf/RL/RL31181

[2] Ibid.

[3] The China State Tax Administration and Ministry of Finance (MOF) jointly released the *Announcement on Further Improving the Pre-tax Super Deduction Policy for R&D Expenses, STA MOF Announcement [2023] No. 7.* https://www.chinatax.gov.cn/chinatax/n359/c5185879/content.html

[4] Subcommittee on Research and Development Infrastructure, Committee on Science and Technology Enterprise of the National Science and Technology Council, National Strategic Overview for Research and Development Infrastructure in 2021 (pg.23)

finally enact this legislation in the 119th Congress to provide long-sought relief for small to medium-sized businesses and entrepreneurs that comprise SSBA membership.

Enactment of this legislation will finally restore SSBA members' ability to fully reinvest in their businesses, expand operations, and create new job opportunities. Small businesses are the backbone of our economy and providing them with the necessary tools and resources to succeed is paramount for sustained economic growth.

Sincerely,

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Alex Cooke
Executive Director
Small Software Business Alliance

Appendix
SSBA Member Testimonials

Aaron Schroeder, Co-Founder and President of Canopy, a Public Benefit Company
Manhattan, Kansas

The following is about R&D, taxes, and small business.

In 2022, U.S. businesses lost the ability to expense 100 percent of their R&D costs in the year they were incurred for the first time since 1981. Guidance from the IRS also indicated that most software development, including ongoing improvements to a Software as a Service (SaaS) must be classified as R&D.

Unfortunately, small bootstrapped software companies like Canopy, a Public Benefit Company were among the ones most impacted by this change. Consider this scenario: Your business has grown to $2 million per year in revenue. Of this $2 million, you spend $1.95 million on support, maintenance, and ongoing improvements, leaving $50,000 in profit. Let's say $1 milion of those expenses were for salaries and costs related to improving the software -- not unreasonable for a growing software company. Under the new rules, only 10 percent, or $100,000 of that $1 million could be counted as a 2022 expense while the rest had to be rolled over into future years (20 percent each subsequent year). Rather than $50,000, the small business had to report $950,000 in profit and pay state and federal taxes on that amount.

While a bit more complex, this is essentially the situation smaller bootstrapped SaaS companies like Canopy have found themselves in for the past 3 years. Larger companies can more easily absorb this change and may have already been amortizing R&D expenses anyway. But smaller software companies have been hit hard. Some had to take loans just to pay their tax bill. Most, at minimum, had to scale back spending to cover a tax burden that often exceeded the overall profit (even large tax burdens if there was a net loss).

Voximetry
Middleton, Wisconsin

For years, Voximetry and many other NIH SBIR companies have invested in building and growing our teams. Voximetry has been working to make safe, personalized care available to all theranostic patients, pouring resources into innovation to create better solutions for our business and customers.

However, due to a change in federal tax law, we’ve been unable to fully expense our research and development expenditures and are now required to amortize these expenses over five years. This has made less capital available for reinvestment into the company, and for many young technology companies has impacted cash flow to hire top talent, slowed the ability to expand the business, and required investor dollars to go toward tax payments back to the very government who provided funds for much of the work in the first place.

. . . The Small Software Business Alliance is calling for Congress to restore full expensing of R&D expenditures by supporting a tax policy that works for small businesses, not against them. We are the backbone of the economy, the future of better healthcare, and we deserve better.

Matt Roberts, Founder, Better Credits, Inc.
San Diego, California

I work alongside companies that are pushing the boundaries of technology and innovation—helping them maximize tax incentives that fuel growth and job creation.

But since 2022, the Section 174 capitalization requirement has hindered this growth and job creation. Instead of fully expensing R&D costs, businesses are now forced to amortize them over five or fifteen years—draining cash flow, stalling projects, and slowing innovation.

We've seen firsthand how this has impacted small business who are the backbone of our economy:
• Less cash flow available to hire and retain top talent
• Delays or cancellations of critical R&D projects
• Tougher decisions about expansion and investment
• Reduced capital for scaling and staying competitive
• Increased tax liability at a time when companies need resources to grow

This isn't just a tax issue—it's an innovation crisis. The companies driving technological advancements, creating jobs, and strengthening the U.S. economy are being penalized for investing in the future. I stand with taxpayers in urging Congress to restore full expensing of R&D expenditures and support policies that fuel innovation, not hinder it.

Jason Summers, Owner, ARiA
Madison, Virginia

[The Section 174 expensing] challenge is still unresolved, and the U.S. tax law remains untenable for both small R&D firms serving DoD and early-stage software firms.

Robert Longyear, Founder and CEO, Avenue Health
Long Beach, California

In a more globally competitive world, the United States must support small business-driven innovation, domestically. America has always led the world in innovation, but [expiration of the R&D immediate deduction] does not support our continued global leadership in innovation; in fact, it inhibits it. Small business innovation creates jobs, transforms our technological capabilities, and improves the quality of life for millions of Americans. Avenue Health operates in a particularly challenging healthcare environment, and we need every bit of help we can get to bring lifesaving, cost-effective, and transformative clinical programs to our nation's Medicare patients.

Edwin Schmierer, Co-Founder and COO, Rotational Labs
St. Paul, Minnesota

In FY22, our tax bill increased by four times because we could not fully expense engineering salaries. We cannot afford this … Small companies are the engines of innovation. Many, many, many software companies will not survive. It will take a decade to recover, assuming there is an incentive to ever start a software company again.

Tom Rohlf, Co-Founder and CEO, Junglytics
Washington, District of Columbia

As a result of the changes in how early-stage startup expenses are able to be expensed, we had to make hard decisions about what to cut from our budget when we were still just getting our feet under us.

Marc Fischer, Founder and CEO, Dogtown Media
Venice, California

Reviving the R&D tax [deduction] is vital for small business innovation and U.S. competitiveness. Every day that goes by without a solution leaves American businesses further and further behind.