

U.S. House of Representatives
Committee on Veterans' Affairs
Oversight Hearing:

"Veterans Serving Veterans: The Impact of America's Businesses on
Veteran Employment and Opportunity."

Chairman Bost, Ranking Member Takano, esteemed committee members, including Representative Jen Kiggans of our home district, thank you for this platform to discuss the pivotal role of Veteran's and Veteran entrepreneurship in our nation's economy and security.

Having served with exemplary veterans, I've witnessed firsthand their unwavering dedication and integrity. These qualities remain intact as they transition to civilian life, enriching our businesses and communities. Veteran entrepreneurs own more than 2.5 million businesses, employ nearly 6 million American workers, and generate about \$1.2 trillion in annual revenue. Veterans represent 2.3% of the workforce but Veteran businesses account for an oversized 7.3% of the U.S. private sector economy. This isn't just a statistic; it's a testament to their indomitable spirit and the value they add post-service, including the experienced mission insight they critically provide to the Department of Defense.

However, as Secretary of Defense Austin observed this year in his small business strategy, the "Participation of small business in the defense industrial base has declined by over forty percent in the past decade" and the number of small businesses receiving contract awards dropped by more than half.

While the Secretary's initiatives to provide new training resources is commendable, his observations reflect a dire need for reform, not in small business training, but in our approach to acquisitions. Acquisition professionals need more education to better understand how their decisions, policies, and processes create increasing barriers to success which hurts Veteran entrepreneurs and professionals, the Warfighter, and the nation.

Our Veterans find themselves up against a burgeoning regulatory maze that can be discouraging and disheartening, and stifles the very innovation we need to maintain our technological edge. Take Section 174 of the Tax Cuts and Jobs Act for instance, which

effectively penalizes Veteran small businesses for tackling our nation's most challenging technology needs.

General Brown, Chairman of the Joint Chiefs previously challenged the Air Force to "Accelerate change or lose" in the face of a growing peer threats, but left unchecked Section 174 is a massive speed break on Veteran participation in Small Business Innovation Research and puts our competitive edge at risk.

Other programs intended to level the playing field for all, such as the Alaskan Native Corporation program makes it much harder for Veteran businesses to compete by giving ANCs nearly 20 times the contracting power of other small businesses.

The transition from active duty to civilian life is fraught with challenges. Existing transition programs miss the mark because information and assistance often come too late in the process, and training is often out of touch with current private sector business practices. To remedy this, we must revamp transition programs to be more adaptable to service members' schedules and be more reflective of the differences between military and business culture.

Transition challenges are not just about the economics; they're also about the human cost. Without adequate support, the pressure on our Veterans can lead to heightened emotional stress and financial insecurity which exacerbate mental health issues and substance abuse resulting in a Veteran suicide rate of 22 per day; a national tragedy that speaks volumes about the urgency of improving our support infrastructure.

Robust support is essential not just for the well-being of Veterans, but also businesses, and the nation that depends on them. By equipping veterans with the tools for success in the business world, we honor their service and encourage future generations to serve, knowing that their skills and sacrifices will be valued both in and out of uniform.

Veterans lead - in combat, business, innovation, and government. I urge this Committee to champion reforms that empower Veterans to contribute further to our nation through entrepreneurship and innovation. By doing so, we not only repay our debt of gratitude but also invest in the very fabric of our nation's future.

Thank you once again for your unwavering commitment to our veterans and I look forward to your support in enacting these vital changes.

Additional Comments

The following key issues are negatively impacting Veteran businesses, entrepreneurs, and professionals:

Section 174 Recharacterization of Tax Amortization of Research and Experimentation

Expenses. Section 174 of the Tax Cuts and Jobs Act (TCJA) mandates a five-year amortization of R&D expenses, disallowing immediate deductions. This accounting change presents an inflated profit figure, causing businesses to incur taxes on funds already expended on R&D, which depletes cash reserves and could lead to reduced growth and innovation.

Key Facts:

- Funds allocated to R&D can misleadingly inflate apparent profits, leading to taxation on non-existent funds.
- This increased tax burden may siphon critical cash from small business operations and growth initiatives, and render Veteran business ineligible for participation in other SBA small business programs.
- Anticipated consequences include inhibited growth, job loss, and diminished investment in R&D, adversely affecting small businesses, SBIR programs, and the warfighter.
- The long-term impact could be a substantial setback in development and reduced R&D ventures by small businesses.

Action: Advocate for the repeal of the TCJA's R&D amortization requirement to allow small businesses to immediately expense R&D outlays, fostering continued innovation and economic growth without the burden of inflated tax liabilities.

Alaskan Native Corporations (ANC). The ANC program was intended to level the playing field for Alaskan small business, however it threatens Veteran owned small businesses by giving disproportionate advantages ANC who dominate all small business categories included VOSB, SDVOSB, and 8(a). With a \$100,000,000 direct award ceiling, ANCs have nearly 20 times the power of Veteran businesses in competition for direct award contracts. Additionally, ANCs make up 33% of all 8(a) small businesses in all the US, and 50% of all direct awards are directed to ANCs.

ANCs do not act as small business; they act as billion-dollar conglomerates who dominate markets and smother small businesses. This incentivizes large awards to ANCs at the expense of truly small businesses who are limited by a direct award ceiling of only \$4.5m.

Recommended Action: Congress should establish goals for ANCs that are separate and apart from the goals for all other 8(a) businesses.

Innovation Funding. Over the past ten years, DoD has implemented considerable changes in innovation programs and increased investment in research and development. However, the real challenge in innovation adoption with far too many viable innovations left to die in the “Valley of Death” because the adoption process is far too cumbersome. These programmatic gaps present tremendous risks for Veteran Owned Businesses who participate in Small Business Innovation Research programs.

Recommended Action:

1. Enable the appropriations process to support innovation adoption by allocating funding specifically to establish and sustain innovative technology solutions until the slow and cumbersome POM process can establish solutions in a program of record.
2. Direct innovation organizations to share R&D requirements to avoid duplication of investment. DoD repeatedly wastes funding on new R&D when organizations are simply unaware that another agency has already funded R&D for an existing solution. FAR 35.003(b)(3) states the SBIR program is intended to “avoid duplication of effort and increase participation of small businesses in federal R&D”, yet this cycle repeatedly wastes resources on redundant R&D that could have been better spent on adoption and perhaps worse – wastes time getting a solution to the Warfighter.

Recommended Action: Require innovation organizations to create better visibility on innovation investment and ensure requirement owners have reviewed current and completed needs before allocating them new R&D funding. Requirement owners should be directed to leverage existing innovations before investing in new R&D.

Veteran Transition Assistance.

Program Adaptability and Access. Current military transition programs are rigid, overlooking the unpredictable and demanding schedules of active-duty members, making engagement with critical resources difficult.

Key Facts: Service members' schedules are demanding and variable; transition assistance requires schedule and geographical adaptability.

Recommended Action: Institute flexible and dynamic transition assistance that is widely accessible, incorporating cutting-edge online platforms and resources for remote learning that accommodate individual needs and constraints.

Cultural Transition and Emotional Support. The transition from military to civilian life is a complex process that encompasses significant cultural and emotional adjustments. Veterans often experience a cultural and psychological divide as they leave behind a structured, mission-oriented military environment and enter the civilian workforce, which can lead to stress and a sense of dislocation.

Key Facts: Veterans must navigate a challenging cultural shift and potential identity crisis; emotional support is crucial during this adjustment period.

Recommended Action: Develop comprehensive cultural acclimatization training and support systems, which prepare veterans for civilian workplace dynamics and provide coping strategies for the loss of military camaraderie and structure, enhancing their emotional resilience.

Integration into the Culture of Business. A successful transition into the civilian sector involves more than finding a job; it means integrating veterans into the business ecosystem in a way that their unique skills and experiences are fully utilized. Transition programs must promote the value that veterans add to the civilian workforce, fostering economic growth and innovation.

Key Facts: Veterans possess unique skills valuable to the civilian sector; transition programs should highlight and harness these attributes.

Recommended Action: Launch initiatives that articulate the value proposition veterans offer to businesses, creating channels for meaningful employment and partnership opportunities that leverage veterans' specialized skills for mutual economic benefit.

Financial Uncertainty with New Retirement Systems. Veterans transitioning to civilian life under the new Blended Retirement System (BRS) may encounter financial uncertainty due

to the system's differing payout structure. This can significantly impact their ability to transition smoothly, including the pursuit of entrepreneurship.

Key Facts: BRS changes retirement income dynamics; veterans need financial guidance tailored to this new system.

Recommended Action: Offer targeted financial planning and entrepreneurial support for veterans under BRS, providing financial education, access to startup capital, and business mentorship that accommodate the unique challenges posed by the new retirement landscape.

Demonstrating National Gratitude Through Action. Transition programs reflect the nation's commitment to its service members, demonstrating to the public and potential recruits that the well-being of veterans is a national priority. These programs are integral to showing gratitude and ensuring that veterans are valued members of society post-service.

Key Facts: Effective transition programs signal national appreciation; they are crucial for the well-being of veterans and their families.

Recommended Action: Strengthen and champion transition assistance as a core expression of national gratitude, ensuring that these programs are comprehensive, effective, and fully representative of our commitment to veterans' successful reintegration into civilian life.

By prioritizing these critical factors and integrating them into a cohesive transition assistance strategy, we can foster an environment in which veterans are empowered to succeed in the civilian sector, thereby reinforcing the strength of our military, the vitality of our economy, and the moral fiber of our nation.

Respectfully submitted for your consideration.



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