



Urging Senate Leadership to Include Permanent and Retroactive R&D Expensing in the Reconciliation Bill

June 13, 2025

The Honorable John Thune
Majority Senate Leader
Washington, District of Columbia 20510

The Honorable Chuck Schumer
Senate Minority Leader
Washington, District of Columbia 20510

RE: Urging Senate Leadership to Include Permanent and Retroactive R&D Expensing in the Reconciliation Bill

Dear Majority Leader Thune and Minority Leader Schumer,

On behalf of the members of the Small Software Business Alliance (SSBA) and the small business innovation community nationwide, we write today with urgency and optimism. As the Senate prepares to advance comprehensive tax legislation, we urge you to seize this opportunity to restore full and immediate expensing of domestic research and development (R&D) investments—permanently—and to provide retroactive relief for R&D costs incurred in tax years 2022 through 2024.

Since the Tax Cuts and Jobs Act of 2017 took effect in 2022, requiring five-year amortization of R&D expenses, startups and small firms have been disproportionately harmed—penalized for investing in innovation, hiring U.S. talent, and developing critical technologies. This misguided policy shift is stalling job creation, shrinking R&D pipelines, and weakening our global competitiveness.

As **Randolph Ashton of Neurosetta LLC from Madison, Wisconsin**, told us:

“We were ecstatic to receive a FastTrack STTR grant from NIH/NIEHS and successfully built our platform... then we got tax bills totaling over \$300K for translating technology to reduce healthcare costs and treat neurodevelopmental

disorders. This has been devastating to our solvency and our faith in the U.S. government's support for innovation."

These are not isolated cases. Across the country, small companies are stalling hiring, freezing product deployment, and in some cases, considering relocating overseas to escape these costs:

- **Christopher Bergh of Data Kitchen from Lexington, Massachusetts:** *"We had to do layoffs of our software engineers. This is our single biggest expense. Retroactivity and permanency are essential."*
- **James Flanagan of Resonant Cavity, LLC from Minneapolis, Minnesota:** *"Inability to expense payroll for engineers, which constitutes about 75% of our costs as a small software business, forced my co-owner and I to take out a \$300k loan just to pay taxes in 2023. In that same year, we had to terminate our contract with a domestic software development agency because we could not afford the tax burden of paying for all the developers we needed without full expensing. Our foreign competitors faced no such tax burden and grew their market share."*
- **Tom O'Dea of Rocket Whale Products, LLC from Atlanta, Georgia:** *"The lack of R&D expensing has significantly cooled our hiring plans... This has caused us to lose competitiveness when compared to our main competitor, who is based in Canada."*
- **Liz Earley of Venova Technologies Inc. from Cambridge, Massachusetts:** *"[the lack of R&D capitalization] has significantly stalled the progress of my start-up company. It has decreased yearly cash flow, resulting in a freeze on hiring, a more limited scope of product development, and a general concern about future business expenditures."*

The data is paramount:

- **Phase2 Technology from Arlington, Virginia**, projected Section 174-related tax increases of **over \$1M per year**, forcing cuts to cash flow and critical digital health investments.
- **IntervalZero Inc. from Waltham, Massachusetts**, faced \$2M in Section 174 tax burdens against an average \$222K annual profit, **leading to layoffs of nearly 40% of its workforce.**
- **Julien Unger & Associates from Kirkland, Washington**, shows an example of a client company with \$4M of cash losses and had to report **\$2.5M of taxable income** due to the addback of significant R&D expenses.

The policy is not just unworkable—it hinders American competitiveness on the global stage. China currently allows 200 percent expensing of R&D, while the United States

penalizes it. **As Benjamin Campbell of PMG Learning Solutions from Winchester, Massachusetts**, observed:

“Meanwhile, China is allowing a 200% expensing... and we’re crushing our most innovative companies. Who do you think is going to win that war?”

Congress must act now. The permanent reinstatement of full domestic expensing would allow our members to hire engineers, researchers, and full-time staff. Without permanent provisions, small companies do not have the certainty they need to innovate. Our members say:

- **David Maass of Flightware Inc. from Guilford, Connecticut:** *“Permanence is key. The uncertainty of renewal after 5 years means that performing R&D cannot be a long-term business strategy.”*
- **Damien Sibilla of Tyber Medical, LLC from Bethlehem, Pennsylvania:** *“We could accelerate the development of new lines... A permanent deduction would allow us to invest more upfront, run parallel testing, and reach the market faster. We are currently outsourcing some activities to overseas vendors because of cost. If we could deduct domestic R&D expenses, we would bring this function in-house and hire local talent, supporting the U.S. workforce.”*
- **Jake Reder of Celdara Medical from Lebanon, New Hampshire:** *“Permanency is stability and common sense. Without it, we can’t plan, so we can’t invest.”*
- **Trevor Ewen of QBench from Newark, Delaware:** *“Labor in software development is one of our primary costs. If it’s added temporarily, then we can’t plan for the future and invest in our people as well. Our alternative would be to augment with contractors in good times and let them go in bad times. This is not stable.”*

We also urge the Senate to include retroactive relief for R&D expenses incurred between tax years 2022 and 2024. The lapse of Section 174’s immediate expensing provision imposed crushing tax burdens on small businesses, many of which were already operating on tight margins. Forced amortization drained critical cash reserves, limiting the ability of companies to hire, invest in innovation, and sustain growth. Retroactivity would not only restore essential capital to these businesses but also reaffirm Congress’s commitment to rewarding risk-taking and honoring the overarching intent of the tax code to support American innovation. Our members say:

- **Richard Ludlow of Hexany Audio LLC from Bell Gardens, California:** *“Retroactively fixing this issue would be an incredible boost to our employees and our research. We would immediately offer profit sharing bonuses to our entire team, increase our raises, and begin investing more in critical R&D relating to artificial*

intelligence in our field.”

- **Josh Eaton of Reaktiv from Temecula, California:** *“Retroactivity would clear our outstanding tax liability and allow us to invest in new products and hiring to grow the business.”*
- **Sue Wallace of Voximetry, Inc. from Middleton, Wisconsin:** *“Yes, we are currently struggling to complete a Series A raise. Having funds back could help us avoid shutting our doors as we struggle to stay cash positive month by month.”*
- **Jason Summers of ARiA from Madison, Virginia:** *“As a truly small business that has faced an unprecedented tax rate since 2022 that has exceeded 500% each year (sometimes exceeding 1000%), being able to recover those huge payments now would enable my firm and my family to continue our work.”*
- **Ovais Tariq of Tigris Data from Sunnyvale, California:** *“We were investing heavily in innovation and budgeting for full deductibility. Retroactive relief would restore our working capital—cash we’d immediately reinvest into scaling and hiring.”*

We commend the bipartisan work already done to advance the American Innovation and Jobs Act (S.1639) and its House companion, the American Innovation and R&D Competitiveness Act (H.R. 1990). To ensure lasting relief and a globally competitive innovation ecosystem, we respectfully request that the Senate include these two provisions in the final reconciliation bill:

1. **Make immediate expensing of domestic R&D expenditures a permanent feature** of the tax code, and
2. **Include retroactivity for R&D costs incurred from tax years 2022 to 2024**, providing relief for businesses that have already experienced substantial financial harm due to amortization.

Small businesses are the engine of American innovation. If Congress fails to act, it will not just slow growth—it will result in continued job losses in your home states and will stall the next generation of technological breakthroughs.

Thank you for your leadership.

Sincerely,



Alex Cooke

Executive Director

Small Software Business Alliance