AdvaMed
Advanced Medical Technology Association

1301 Pennsylvania Avenue, NW
Suite 400
Washington, D.C. 20004
P :: 202.783.8700
F :: 202.783.8750
W:: AdvaMed.org

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Dear Leader Schumer, Speaker Johnson, Minority Leader McConnell, and Minority Leader Jeffries,

I am writing on behalf of AdvaMed, the Medtech Association, and our more than 450 member companies, to urge Congress to pass the bipartisan, bicameral *Tax Relief for American Families and Workers Act of 2024*. Its pro-growth economic policies include a research-and-development expensing provision that is critical to medical technology innovation. Repealing or delaying the implementation of the Section 174 change would help ensure the continued success of this industry in the United States, where policies promoting innovation allow U.S.-based medtech companies to lead the world in creating new technologies to save and improve patient lives.

The provision allowing businesses to deduct the cost of their U.S.-based R&D investments immediately instead of over five years is especially critical to small and emerging-growth medtech companies, which account for more than 80 percent of the industry and are critical to driving innovation and improving patient outcomes. These companies also are the hardest hit by the change in the tax treatment of R&D expenses.

Research and development is essential to the creation of safe, innovative, and effective medtech devices and diagnostics. The process of developing these new therapies and treatments is expensive and challenging for small, emerging companies to afford. Navigating a tax liability over five years produces an undue hardship for these companies, threatening to force many of the most innovative and promising medical technologies to wither on the vine.

The changes to Section 174 also create negative tax consequences for federal research grants, including funds issued through the Small Business Innovation Research and Small Business Technology Transfer (SBIR/STTR) programs. These are vital programs for small companies to innovate and fulfill unmet medical needs identified by the National Institutes of Health, the National Science Foundation, and

the Department of Defense. Congress has reauthorized the SBIR/STTR grant programs for decades, most recently in 2022 for three years. We believe it is counterproductive to tax small companies on research and development grants.

As one grant awardee, a small company and AdvaMed member, put it:

> *[Our company] utilizes grant funds to conduct R&D activities, including algorithm development, intellectual property creation, clinical research, and product development, to further the company's efforts toward commercialization of its product for real-time stroke detection. Every dollar of funding is considered earmarked for specific R&D project costs, tax not being one of them. In fact, the National Science Foundation has strictly prohibited use of its grant funds toward alleviating the tax burden created by changes in Section 174. …*
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> *If these rules are not repealed, businesses, including [ours], will be faced with unforeseen financial burdens and uncertainty around the business's near-term viability. For [our company] specifically, Section 174 will result in a significant reduction of its clinical operations, delays in FDA validation studies and commercialization, and ultimately, delays in getting our lifesaving stroke detection product into the hands of patients in need.*

Other small and emerging companies expressing concern about this provision are innovating critical solutions to: reduce disease spread, help babies born with congenital heart disease, diagnose and treat pulmonary conditions earlier, treat critical cardiovascular limb ischemia, advance cancer therapies, improve the health of patients on ventilation, and develop biomaterial components and devices.

Additionally, larger, established companies use the R&D deduction to help continue their innovation, which serves patients, employs hundreds of thousands of Americans, and contributes billions of dollars to the U.S. economy. Medtech supports nearly two million U.S. jobs, and Commerce Secretary Gina Raimondo recently called medtech "the last bastion of advanced manufacturing" in the United States.

The R&D provision is so important to medtech that AdvaMed included it in our Medical Innovation Agenda for the 118th Congress, released at the beginning of last year's session. For the patients we serve, who rely on the technologies our industry

develops, we are pleased to see this provision to fix the damaging change to Section 174 advance and encouraged by the prospect of timely enactment this year.

On behalf of AdvaMed and our member companies, I thank you for considering this request and welcome the opportunity to discuss it further with you or your staff.

Sincerely,

Scott Whitaker