DATE

Dear Member of Congress:

I am a winery owner in Napa Valley, California and I am writing to you regarding a federal tax provision that is having a negative impact on my business and many other small and medium sized businesses in my community and around the country. The tax provision requires businesses to capitalize their research and experimentation (R&E) expenses, and then amortize them over at least five years. The provision (Section 174 of the tax code) became effective this year. **We need your immediate help to repeal this provision.**

Historically, businesses were able to immediately deduct R&E expenses. Last year, my business deducted 100% of our R&E expenses – they were included with other ordinary business expenses like wages, lab fees, farming costs, and production costs. In the first year of this new law, businesses will only be able to deduct 10% (and 20% per year after that). The impact on our bottom line is severe. In addition, the tax code does not contain enough clarity about what is and is not Research & Experimentation. To businesses like mine, a spirit of innovation is integral to our process, and I don’t know how to separate this from my routine business expenses.

A winery with $10,000,000 in sales likely has $2,000,000 in cost of goods, $4,500,000 in ordinary business expenses, and research costs of $1,500,000 (identified under Code Sec. 41 for the R&D tax credit). Under the previous rules, this would have left us with a profit of $2,000,000, an R&D tax credit of $300,000, and a **tax liability of $440,000**. Wineries like mine use much of the remaining $1,560,000 to invest in the future of our businesses.

This year, **due to the change in the law, this business will have a tax liability of $1,295,000 – an effective tax rate of 65%.** You can easily imagine that these crushing tax payments will have a dramatic impact on our ability to keep and retain employees, much less grow our business. For smaller wineries and vineyards, this could mean the end of a family legacy.

I ask you and your colleagues to take immediate steps to reverse this amortization provision and return to the long-time practice of allowing immediate expensing of R&E expenses. The current requirement of amortization is particularly harmful to small and medium businesses such as mine. At a time that our country wants to encourage domestic manufacturing, on-shoring and innovation, it is troubling that Congress put in place a tax provision that works against those goals and discourages innovation and job creation in the United States.

Failure to correct this provision will lead to less innovation, less research, fewer breakthrough products and services, lower employment and slower growth. Small businesses, the heart and soul of the American economy, will face the greatest damage. Small and medium sized businesses throughout California will long remember and appreciate your leadership on this critical business issue.  I look forward to your efforts to ensure that the requirement of amortization of R&D expenses is withdrawn this year before it devastates American businesses and jobs. Thank you for your time and consideration.

Sincerely,