

March 30, 2026

The Honorable Scott Bessent  
Secretary  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue NW  
Washington, DC 20220

Dear Secretary Bessent:

On behalf of the nation's manufacturing industry and the 13 million people who make things in America, the undersigned manufacturing associations urge the Department of the Treasury to reform the compliance processes, audit procedures, and regulations that undermine the value and impact of the Sec. 41 Research Tax Credit.

The Trump Administration and Congress have already taken a series of critical steps to support research investment in the tax code by restoring immediate research expensing in H.R. 1, modifying CAMT guidance to maximize the impact of immediate research expensing, and delivering a Side-by-Side agreement on Pillar Two that protects the U.S. R&D tax credit from extraterritorial taxes. The Administration now has a significant opportunity to continue its momentum in implementing pro-innovation policy by reassessing research credit compliance processes and regulations.

Manufacturers conduct 52% of all private sector research in the U.S., and the R&D credit is a vital tool for encouraging additional research investment and driving innovation. However, various aspects of the credit, including compliance burdens and the disqualification of certain research expenditures that are vital for manufacturing, undermine its value as a research incentive.

- **Compliance and Audit Burdens:** The information reporting required for taxpayers to claim the R&D credit has expanded far beyond the documentation that is produced in the ordinary course of business. This increased burden has necessitated a variety of new systems solely to meet reporting obligations. As such, manufacturers have been forced to structure their research enterprises according to the needs of the IRS rather than those which best support their research efforts. Manufacturing engineers and innovators are increasingly spending time explaining their work to their tax departments and the IRS, rather than focusing on driving innovation. Furthermore, when under audit, manufacturers face varying interpretations by different exam teams and confusion over what concerns the IRS has and how to address them; in many cases, exam teams take an adversarial approach to manufacturing employees, assuming wrongdoing rather than a good-faith attempt to comply with a complicated tax credit.
- **Disqualification of Factory-Based Research:** Research expenses that occur in a manufacturing setting, such as on a manufacturing shop floor, are increasingly classified by the IRS as manufacturing expenses, rather than research expenses—denying manufacturers the benefits of the R&D credit for these vital research costs. This misinterpretation stems not from statute, but from case law, *Union Carbide v. Commissioner*,<sup>1</sup>—under which the IRS was afforded deference under a standard that has since been overturned by the Supreme Court in *Loper Bright Enterprises v. Raimondo*.<sup>2</sup> The policy choices set in motion by *Union Carbide* have resulted in the IRS denying a significant portion of both product and process research that is vital for manufacturing competitiveness. As China continues to hone its specialization in factory-based innovations and as AI continues to be adapted into

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<sup>1</sup> *Union Carbide Corp. v. Comm'r*, 2009 WL 605161 (U.S. Tax Ct., Mar 10, 2009).

<sup>2</sup> *Loper Bright Enterprises v. Raimondo*, 603 U.S. 369 (2024).

manufacturing processes, the denial of these research expenses harms the competitiveness of manufacturers in America at a time of critical technological change and geopolitical challenge.

Manufacturers across the United States are leading the future of manufacturing, driving innovation to compete globally and ensure that America is the best place in the world to make things. Increasingly, tax policy is aligning with this effort to lead through innovation. However, these major weaknesses of the R&D tax credit are imposing unnecessary barriers to innovation on our nation's manufacturers, while excluding much of the research that is vital to manufacturing competitiveness.

To improve these processes, manufacturers recommend:

1. **Reassessing compliance and audit procedures to better balance taxpayer compliance burden and IRS risk assessment capabilities**, including by working directly with taxpayers to develop a reporting framework that is both administrable and informative. Treasury's commitment to promulgating a workable Form 6765 is a step in the right direction, and the Department should take this opportunity to further reduce the compliance burdens that have accumulated for the R&D tax credit.
2. **Evaluating regulations that prevent the qualification of manufacturing shop floor research and innovation**. Allowing taxpayers to claim factory-based research expenses for both produce and process research would recognize the importance of manufacturing shop floor R&D for advanced manufacturing and the integrated nature of manufacturing processes and manufactured products.

Manufacturers greatly appreciate the work of Congress and the Trump Administration to pass and implement a pro-growth tax code. Innovation is the foundation of American economic prosperity, and the tax code plays an important role in incentivizing and accelerating the research investment that makes innovation possible. Reforming the processes and regulations that have accumulated around the R&D tax credit would build on the significant tax policy success that Treasury has already achieved.

If the R&D credit can be reformed to remove unnecessary roadblocks to innovation, manufacturers will be better equipped to drive technological advancement, compete globally, and capitalize on the economic impacts of artificial intelligence as the United States continues its efforts towards a manufacturing renaissance.

Sincerely,

National Association of Manufacturers  
AICC, The Independent Packaging Association  
American Bakers Association  
American Boiler Manufacturers Association (ABMA)  
American Chemistry Council  
American Cleaning Institute  
American Composites Manufacturers Association  
American Foundry Society  
American Frozen Food Institute  
American Iron and Steel Institute  
AMT- The Association For Manufacturing Technology  
Asphalt Roofing Manufacturers Association

Associated Equipment Distributors  
Beer Institute  
Can Manufacturers Institute  
Cellulose Insulation Manufacturers Association  
Composite Panel Association  
ECIA - Electronic Components Industry Association  
Flexible Packaging Association (FPA)  
Household & Commercial Products Association  
INDA, Association of the Nonwoven Fabrics Industry  
Independent Lubricant Manufacturers Association  
Independent Petroleum Association of America  
Industrial Fasteners Institute  
Industrial Truck Association  
Institute of Makers of Explosives  
MEMA. The Vehicle Suppliers Association  
Metal Powder Industries Federation  
Metals Service Center Institute  
Motorcycle Industry Council  
National Council of Textile Organizations  
National Electrical Manufacturers Association  
National Glass Association  
National Marine Manufacturers Association  
National Tooling and Machining Association  
National Waste & Recycling Association  
Non-Ferrous Founders' Society  
North American Association of Food Equipment Manufacturers (NAFEM)  
North American Millers' Association  
Pharmaceutical Research and Manufacturers of America (PhRMA)  
Plastics Industry Association  
Plumbing Manufacturers International  
PMMI - The Association for Packaging and Processing Technologies  
Polyisocyanurate Insulation Manufacturers Association  
Precast/Prestressed Concrete Institute  
Precision Machined Products Association  
Precision Metalforming Association  
PRINTING United Alliance  
Recreational Off-Highway Vehicle Association  
Specialty Vehicle Institute of America  
STI/SPFA  
Textile Care Allied Trades Association  
The Carpet & Rug Institute  
The Hardwood Federation  
The Recycled Materials Association  
The Vision Council  
TRSA, the Association for Linen, Uniform and Facility Services  
U.S. Tire Manufacturers Association  
Valve Manufacturers Association  
Vinyl Institute  
Window and Door Manufacturers Association