Congress of the United States

Washington, DC 20515

July 25, 2023

Kathy Warden
Chief Executive Officer
Northrop Grumman Corporation
2980 Fairview Park Drive
Falls Church, Virginia 22042

Dear Ms. Warden,

We are writing regarding ongoing efforts to extend and expand the 2017 Republican tax cuts for wealthy and large corporations, including giant defense contractors like Northrop Grumman. The $1.9 trillion Trump tax cuts, which passed on a partisan basis with no Democratic votes, slashed the corporate tax rate and created numerous tax loopholes that help your company and other giant corporations further cut their effective federal income tax rate[1] while earning record profits.[2] Now, House Republicans, thanks to aggressive lobbying by Northrop Grumman,[3] are trying to extend these tax giveaways[4] while continuing to demand massive cuts to critical government programs relied on by millions of Americans.[5] We write to understand how these proposed additional tax breaks would benefit your company.

For generations, Republicans in Congress have driven up the deficit by shoveling tax breaks to the rich, and have then turned around and demanded cuts to critical safety net programs in the name of fiscal responsibility. Their recent debt ceiling fight was no different.[6] Just a few years after passing the 2017 Trump tax cuts – a deficit-busting $1.9 trillion handout to wealthy

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[1] American for Tax Fairness, "Congress Should Raise, Not Cut, Corporate Taxes During the Lame-Duck Session," November 17, 2022, https://americansfortaxfairness.org/wp-content/uploads/Lame-Duck-Corporate-Tax-Breaks-Fact-Sheet-FINAL-11-17-22.pdf.

[2] The Hill, "Corporate profits hit record high in third quarter amid 40-year-high inflation," Tobias Burns, November 30, 2022, https://thehill.com/business/3756457-corporate-profits-hit-record-high-in-third-quarter-amid-40-year-high-inflation/.

[3] Politico Pro, "Defense firms spend big to lobby for R&D write-offs," Lee Hudson, April 21, 2023, https://subscriber.politicopro.com/article/2023/04/defense-firms-spend-big-to-lobby-for-r-d-write-offs-00093285?source=email.

[4] House Committee on Ways and Means, "Ways and Means Passes the Build It in America Act to Restore American Competitiveness, Counter China's Growing Influence, Lower Gas Prices, Repeal Democrats' Green Special Interest Tax Breaks," June 13, 2023, https://waysandmeans.house.gov/ways-and-means-passes-build-it-in-america-act-to-restore-american-competitiveness-counter-chinas-growing-influence-lower-gas-prices-repeal-democrats-green-specia/.

[5] The White House, "STATE FACT SHEETS: House Republicans' Appropriations Bills Would Have Devastating Impacts Across America," May 23, 2023, https://www.whitehouse.gov/omb/briefing-room/2023/05/23/state-fact-sheets-house-republicans-appropriations-bills-would-have-devastating-impacts-across-america/.

[6] ABC News, "Top Republican pushes back on Biden, says new taxes in debt deal are nonstarter," Tal Axelrod, May 21, 2023, https://abcnews.go.com/Politics/gop-budget-chief-pushes-back-biden-new-taxes/story?id=99480777.

individuals and large corporations[7] – House Republicans leveraged a manufactured debt crisis to advance their extreme agenda, ultimately culminating in a deal that cuts funding in real terms for non-defense programs, while increasing[8] an already bloated military budget that serves large companies like yours. And recent reporting shows that Republican appropriators in the House are going even further, working to reduce non-defense funding below the spending levels agreed to in the debt ceiling deal.[9]

And they are not stopping there. Just two weeks after holding the economy hostage in the name of fiscal responsibility, House Republicans introduced a tax package that would extend two of the most expensive corporate giveaways from the TCJA through 2025[10] – 100% bonus depreciation and the net interest deduction – while also reviving the Research and Experimentation (R&E) deduction, a benefit that allows companies to deduct the full cost of R&E costs the year they are made, as opposed to writing them off over five years as they lose value.[11] Notably, the R&E deduction shift to five-year amortization was originally included in the TCJA to offset steep cuts to the corporate tax rate in the bill,[12] but some hoped that it would never come into force,[13] and now, thanks to lobbying from companies like yours, House Republicans are trying to reverse the switch. All in all, the entire Republican package would cost over $1.1 trillion over the next decade.[14] However, because Republicans know that tax cuts for large corporations are wildly unpopular, they have abused a budget timing gimmick to artificially lower their package's budget projections. By enacting it on a temporary basis, House Republicans can claim it will only cost $80 billion – or just 7% of the permanent cost.[15]

These tax breaks are nothing but corporate handouts. In the case of the R&E deduction, there is no evidence that shifting to a five-year amortization for R&E costs lowers private investment at all.[16] In fact, in 2022, after the R&E break expired, there was a *boom* in private R&E investment from large corporations, including Northrop Grumman, which increased R&E spending by $100

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[7] Congressional Budget Office, "The Budget and Economic Outlook: 2018 to 2028" April 17, 2018, p. 106, https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/reports/53651-outlook-appendixb.pdf; Institute on Taxation and Economic Policy, "TCJA by the Numbers, 2020," August 28, 2019, https://itep.org/tcja-2020/.
[8] Defense News, "Debt ceiling agreement locks in Biden's proposed defense budget," Bryant Harris, May 28, 2023, https://www.defensenews.com/congress/budget/2023/05/29/debt-ceiling-agreement-locks-in-bidens-proposed-defense-budget/#:~:text=WASHINGTON%20%E2%80%94%20The%20debt%20ceiling%20agreement,defense%20spending%20to%20%24704%20billion.
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[10] The Committee for a Responsible Federal Budget, "Year-End 'Extenders' Could Worsen Deficits and Inflation," September 20, 2022, https://www.crfb.org/blogs/year-end-extenders-could-worsen-deficits-and-inflation.
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[12] Center on American Progress, "House Bill Would Slash Business Taxes and Undermine Efforts to Stem Profit Sharing," Jean Ross, June 20, 2023, https://www.americanprogress.org/article/house-bill-would-slash-business-taxes-and-undermine-efforts-to-stem-profit-shifting/.
[13] Letter from R&D Coalition to Chairman Brady et al., October 19, 2018, https://investinamericasfuture.org/october-2018-letter-to-congress/.
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compared to 2021.[17] Even worse, the proposed tax cut is retroactive to 2022, meaning that companies like yours would be able to get tax breaks on past investments, providing you and your shareholders with a massive windfall.[18] Meanwhile, Republicans plan on paying for their bill by gutting the clean energy credits passed through the Inflation Reduction Act.[19] These energy credits will help grow the U.S. economy up to $200 billion and create up to 1.3 million jobs nationally by 2030, mainly by incentivizing investments in research and domestic manufacturing.[20] All in all, despite claims of innovation and job creation, an analysis by the Joint Committee on Taxation described the bill's macroeconomic impact as "insignificant."[21] In other words, this bill would do nothing to stimulate the economy – but it would help your company juice its profits.

As one of the largest defense firms in the world, Northrop Grumman stands to make a fortune if the R&E deduction is extended and made retroactive. In a call with investors, Northrop Grumman's CFO disclosed that reversing the sunset of the R&E deduction would retroactively gift your company about $1 billion from investments already made in 2022,[22] pushing your effective tax rate even lower than the 16.1% you paid last year – well below the 21% corporate tax rate.[23] Similarly, Lockheed Martin and Raytheon told investors that the expiration of R&E break added an estimated $500 million and $2 billion to their 2022 tax bills, respectively.[24] This windfall would come at an already incredibly profitable time for large defense contractors: A Pentagon study released this year explained that defense contractors are "generat[ing] substantial amounts of cash beyond their needs for operations or capital investment; the bulk is returned to shareholders so they can invest elsewhere."[25]

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[17] *Id.*

[18] Center on Budget and Policy Priorities, "Flawed House GOP Tax Package Chooses Wealthy Shareholders Over Children and Families and the Fight Against Climate Change," Chuck Marr and Samantha Jacoby, June 13, 2023, https://www.cbpp.org/research/federal-tax/flawed-house-gop-tax-package-chooses-wealthy-shareholders-over-children-and.

[19] *Id.*

[20] Forbes, "Repealing IRA Energy Tax Credits Would Jeopardize Jobs in Red and Purple States," Silvio Marcacci, May 25, 2023, https://www.forbes.com/sites/energyinnovation/2023/05/25/repealing-ira-energy-tax-credits-would-jeopardize-jobs-in-red-and-purple-states/?sh=3db759b767d3.

[21] Joint Committee on Tax, "Macroeconomic Analysis of H.R. 3938 The 'Build It In America Act,'" July 11, 2023, p. 5, https://www.jct.gov/publications/2023/jcx-34-23/.

[22] Politico Pro, "Top defense contractors push Congress to extend R&D tax break," Lee Hudson, Connor O'Brien, Aaron Lorenzo, February 1, 2022, https://subscriber.politicopro.com/article/2022/02/top-defense-contractors-push-congress-to-extend-r-d-tax-break-00003726; Wall Street Journal, "Finance Chiefs Hope New Congress Will Revisit Tax Rule on R&D Expenses," Jennifer Williams-Alvarez, January 19, 2023, https://www.wsj.com/articles/finance-chiefs-hope-new-congress-will-revisit-tax-rule-on-r-d-expenses-11674150952; Defense One, "Defense Firms Brace for Billions of Dollars in New Taxes, And Hope for Congressional Relief," Marcus Weisgerber, February 25, 2022, https://www.defenseone.com/business/2022/02/defense-firms-brace-billions-dollars-new-taxes-and-hope-congressional-relief/362458/.

[23] Northrop Grumman, "Northrop Grumman Reports Fourth Quarter and Full-Year Financial Results," December 31, 2022, https://investor.northropgrumman.com/static-files/a5e318e3-912c-4ed6-b54c-3b31cba7b8c1.

[24] Politico, "Top defense contractors push Congress to extend R&D tax break," Lee Hudson, February 1, 2022, https://subscriber.politicopro.com/article/2022/02/top-defense-contractors-push-congress-to-extend-r-d-tax-break-00003726; Defense One, "Defense Firms Brace for Billions of Dollars in New Taxes, And Hope for Congressional Relief," Marcus Weisgerber, February 25, 2022, https://www.defenseone.com/business/2022/02/defense-firms-brace-billions-dollars-new-taxes-and-hope-congressional-relief/362458/.

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Despite these massive profits and low taxes, Northrop Grumman spent a whopping $4.3 million lobbying for corporate tax breaks from January to March of this year, including a strong push to make the R&E deduction permanent and retroactively save $1 billion on your 2022 tax bill.[26] Northrop Grumman is also a member of the Aerospace Industries Association and the R&D Coalition, both of which have lobbied extensively for a retroactive and permanent extension of the R&E tax deduction.[27] Again, there is no evidence that amortizing R&E costs over five years impacts private investment at all.[28]

A revival of the R&E tax break would add to the billions in savings your companies have already received from the 2017 Trump tax cuts, but it is far from clear if that is the best use of taxpayer dollars. As Congress continues to debate corporate tax reform and government funding levels – including proposals for further corporate tax giveaways, large increases on military spending, and cuts to other critical government programs – we should understand how your company and other massive corporations will be rewarded.

To better understand how an extension and expansion of the 2017 Trump tax cuts would benefit Northrop Grumman, we ask that you answer the following questions by no later than August 9, 2023.

1. How much have your companies saved in each year from 2018 to 2021 thanks to the R&E deduction?
2. How much do your companies expect to save in each year from 2022 to 2025 if the full R&E deduction is extended through 2025?
3. How much does your company expect to spend on lobbying expenses for tax purposes in 2023? How much of that spending will be on lobbying for an extension of the R&E tax deduction?
4. Exactly how much of the $1 billion in retroactive tax refunds would you spend on R&E investments? Please list the investments that you would make in 2024 if the *Build It in America Act* is passed this year.[29]

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[27] R&D Coalition, "R&D Coalition CFO Letter to House and Senate Leadership," November 4, 2022, https://investinamericasfuture.org/rd-coalition-cfo-letter-to-house-and-senate-leadership/; AIA, "Industry Leaders Call on Congress to Fix R&D Tax Change by Year End," December 2, 2022, https://www.aia-aerospace.org/news/industry-leaders-call-on-congress-to-fix-rd-tax-change-by-year-end/; AIA, "Tax Day Looms: Aerospace and Defense Industry Calls for Urgent R&D Tax Code Reform, https://www.aia-aerospace.org/news/tax-day-looms-aerospace-and-defense-industry-calls-for-urgent-rd-tax-code-reform/.

[28] American for Tax Fairness, "The Research Expensing Tax Deduction vs. The Research Tax Credit," June 12, 2023, https://americansfortaxfairness.org/issue/research-expensing-tax-deduction-vs-research-tax-credit/.

[29] Build It In America Act, H.R. 3938, https://www.congress.gov/bill/118th-congress/house-bill/3938.

5. If your company is rewarded with $1 billion in retroactive tax refunds, how do you expect it will affect Northrop Grumman's outlook for stock buybacks and executive compensation?

Sincerely,

Elizabeth Warren
United States Senator

Chris Deluzio
Member of Congress

Congress of the United States
Washington, DC 20515

July 25, 2023

James Taiclet
President and Chief Executive Officer
Lockheed Martin Corporation
6801 Rockledge Drive
Bethesda, Maryland 20817

Dear Mr. Taiclet,

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[27] Politico Pro, "Defense firms spend big to lobby for R&D write-offs," Lee Hudson, April 21, 2023, https://subscriber.politicopro.com/article/2023/04/defense-firms-spend-big-to-lobby-for-r-d-write-offs-00093285?source=email; Politico Pro, "Top defense contractors push Congress to extend R&D tax break," Lee Hudson, February 1, 2022, https://subscriber.politicopro.com/article/2022/02/top-defense-contractors-push-congress-to-extend-r-d-tax-break-00003726.

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[29] American for Tax Fairness, "The Research Expensing Tax Deduction vs. The Research Tax Credit," June 12, 2023, https://americansfortaxfairness.org/issue/research-expensing-tax-deduction-vs-research-tax-credit/.

[30] Build It In America Act, H.R. 3938, https://www.congress.gov/bill/118th-congress/house-bill/3938.

5. If your company is rewarded with $500 million in retroactive tax refunds, how do you expect it will affect Lockheed Martin's outlook for stock buybacks and executive compensation?

Sincerely,

Elizabeth Warren
United States Senator

Chris Deluzio
Member of Congress

Congress of the United States
Washington, DC 20515

July 25, 2023

Gregory Hayes
Chairman and Chief Executive Officer
Raytheon Technologies Corporation
1000 Wilson Blvd.
Arlington, VA 22209

Dear Mr. Hayes:

We are writing regarding ongoing efforts to extend and expand the 2017 Republican tax cuts for the wealthy and large corporations, including giant defense contractors like Raytheon. The $1.9 trillion Trump tax cuts, which passed on a partisan basis with no Democratic votes, slashed the corporate tax rate and created numerous tax loopholes that help your company and other giant corporations further cut their effective federal income tax rate[1] while earning record profits.[2] Now, House Republicans, thanks to aggressive lobbying by Raytheon,[3] are trying to extend these tax giveaways[4] while continuing to demand massive cuts to critical government programs relied on by millions of Americans.[5] We write to understand how these proposed additional tax breaks would benefit your company.

For generations, Republicans in Congress have driven up the deficit by shoveling tax breaks to the rich, and have then turned around and demanded cuts to critical safety net programs in the name of fiscal responsibility. Their recent debt ceiling fight was no different.[6] Just a few years

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[1] American for Tax Fairness, "Congress Should Raise, Not Cut, Corporate Taxes During the Lame-Duck Session," November 17, 2022, https://americansfortaxfairness.org/wp-content/uploads/Lame-Duck-Corporate-Tax-Breaks-Fact-Sheet-FINAL-11-17-22.pdf

[2] The Hill, "Corporate profits hit record high in third quarter amid 40-year-high inflation," Tobias Burns, November 11, 2022, https://thehill.com/business/3756457-corporate-profits-hit-record-high-in-third-quarter-amid-40-year-high-inflation/

[3] Politico Pro, "Defense firms spend big to lobby for R&D write-offs," Lee Hudson, April 21, 2023, https://subscriber.politicopro.com/article/2023/04/defense-firms-spend-big-to-lobby-for-r-d-write-offs-00093285?source=email

[4] House Committee on Ways and Means, "Ways and Means Passes the Build It in America Act to Restore American Competitiveness, Counter China's Growing Influence, Lower Gas Prices, Repeal Democrats' Green Special Interest Tax Breaks," June 13, 2023, https://waysandmeans.house.gov/ways-and-means-passes-build-it-in-america-act-to-restore-american-competitiveness-counter-chinas-growing-influence-lower-gas-prices-repeal-democrats-green-specia/

[5] The White House, "STATE FACT SHEETS: House Republicans' Appropriations Bills Would Have Devastating Impacts Across America," May 23, 2023, https://www.whitehouse.gov/omb/briefing-room/2023/05/23/state-fact-sheets-house-republicans-appropriations-bills-would-have-devastating-impacts-across-america/

[6] ABC, "Top Republican pushes back on Biden, says new taxes in debt deal are nonstarter," https://abcnews.go.com/Politics/gop-budget-chief-pushes-back-biden-new-taxes/story?id=99480777

after passing the 2017 Trump tax cuts – a deficit-busting $1.9 trillion handout to wealthy individuals and large corporations[7] – House Republicans leveraged a manufactured debt crisis to advance their extreme agenda, ultimately culminating in a deal that cuts funding in real terms for non-defense programs, while increasing[8] an already bloated military budget that serves large companies like yours. And recent reporting shows that Republican appropriators in the House are going even further, working to reduce non-defense funding below the spending levels agreed to in the debt ceiling deal.[9]

And they are not stopping there. Just two weeks after holding the economy hostage in the name of fiscal responsibility, House Republicans introduced a tax package that would extend two of the most expensive corporate giveaways from the TCJA through 2025[10] – 100% bonus depreciation and the net interest deduction – while also reviving the Research and Experimentation (R&E) deduction, a benefit that allows companies to deduct the full cost of R&E costs the year they are made, as opposed to writing them off over five years as they lose value.[11] Notably, the R&E deduction shift to five-year amortization was originally included in the TCJA to offset steep cuts to the corporate tax rate in the bill,[12] but some hoped that it would never come into force,[13] and now, thanks to lobbying from companies like yours, House Republicans are trying to reverse the switch. All in all, the entire Republican package would cost over $1.1 trillion over the next decade.[14] However, because Republicans know that tax cuts for large corporations are wildly unpopular, they have abused a budget timing gimmick to artificially lower their package's budget projections. By enacting it on a temporary basis, House Republicans can claim it will only cost $80 billion – or just 7% of the permanent cost.[15]

These tax breaks are nothing but corporate handouts. In the case of the R&E deduction, there is no evidence that shifting to a five-year amortization for R&E costs lowers private investment at

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[7] Congressional Budget Office, "The Budget and Economic Outlook: 2018 to 2028,"; Institute on Taxation and Economic Policy, "TCJA by the Numbers, 2020," August 28, 2019, https://itep.org/tcja-2020/
[8] Defense News, "Debt ceiling agreement locks in Biden's proposed defense budget," Bryant Harris, May 28, 2023, https://www.defensenews.com/congress/budget/2023/05/29/debt-ceiling-agreement-locks-in-bidens-proposed-defense-budget/#:~:text=WASHINGTON%20%E2%80%94%20The%20debt%20ceiling%20agreement,defense%20spending%20to%20%24704%20billion
[9] NBC News, "A collision course over government funding raises fears of a shutdown," Sahil Kapur, July 10, 2023, https://www.nbcnews.com/politics/congress/collision-course-government-funding-raises-fears-shutdown-rcna88849
[10] The Committee for a Responsible Federal Budget, "Year-End 'Extenders' Could Worsen Deficits and Inflation," September 20, 2022, https://www.crfb.org/blogs/year-end-extenders-could-worsen-deficits-and-inflation
[11] *Id.*
[12] Center on American Progress, "House Bill Would Slash Business Taxes and Undermine Efforts to Stem Profit Sharing," Jean Ross, June 20, 2023, https://www.americanprogress.org/article/house-bill-would-slash-business-taxes-and-undermine-efforts-to-stem-profit-shifting/
[13] Letter from R&D Coalition to Chairman Brady et al., October 19, 2018, https://investinamericasfuture.org/october-2018-letter-to-congress/
[14] The Committee for a Responsible Federal Budget, "W&M Tax Bill Would Cost Over $1 Trillion if Made Permanent," June 9, 2023, https://www.crfb.org/blogs/wm-tax-bill-would-cost-over-1-trillion-if-made-permanent
[15] *Id.*

all.[16] In fact, in 2022, after the R&E break expired, there was a *boom* in private R&E investment from large corporations.[17] Even worse, the proposed tax cut is retroactive to 2022, meaning that companies like yours would be able to get tax breaks on past investments, providing you and your shareholders with a massive windfall.[18] Meanwhile, Republicans plan on paying for their bill by gutting the clean energy credits passed through the Inflation Reduction Act.[19] These energy credits will help grow the U.S. economy up to $200 billion and create up to 1.3 million jobs nationally by 2030, mainly by incentivizing investments in research and domestic manufacturing.[20] All in all, despite claims of innovation and job creation, an analysis by the Joint Committee on Taxation described the bill's macroeconomic impact as "insignificant."[21] In other words, this bill would do nothing to stimulate the economy – but it would help your company juice its profits.

As one of the largest defense firms in the world, Raytheon stands to make a fortune if the R&E deduction is extended or made retroactive. In a call with investors, Raytheon's CFO disclosed that reversing the sunset of the R&E deduction would retroactively gift your company about $2 billion dollars from investments already made in 2022,[22] pushing your effective tax rate even lower than the 11.6% you paid last year – well below the 21% corporate tax rate.[23] Similarly, Lockheed Martin and Northrop Grumman told investors that the expiration of R&E break added an estimated $500 million and $1 billion to their 2022 tax bills, respectively.[24] This windfall

[16] American for Tax Fairness, "The Research Expensing Tax Deduction vs. The Research Tax Credit," June 12, 2023, https://americansfortaxfairness.org/issue/research-expensing-tax-deduction-vs-research-tax-credit/
[17] *Id.*
[18] Center on Budget and Policy Priorities, "Flawed House GOP Tax Package Chooses Wealthy Shareholders Over Children and Families and the Fight Against Climate Change," Chuck Marr and Samantha Jacoby, June 13, 2023, https://www.cbpp.org/research/federal-tax/flawed-house-gop-tax-package-chooses-wealthy-shareholders-over-children-and
[19] *Id.*
[20] Forbes, "Repealing IRA Energy Tax Credits Would Jeopardize Jobs in Red and Purple States," Silvio Marcacci, May 25, 2023, https://www.forbes.com/sites/energyinnovation/2023/05/25/repealing-ira-energy-tax-credits-would-jeopardize-jobs-in-red-and-purple-states/?sh=3db759b767d3
[21] Joint Committee on Tax, "Macroeconomic Analysis of H.R. 3938 The 'Build It In America Act,'" July 11, 2023, p. 5, https://www.jct.gov/publications/2023/jcx-34-23/
[22] Politico Pro, "Top defense contractors push Congress to extend R&D tax break," Lee Hudson, Connor O'Brien, Aaron Lorenzo, February 1, 2022, https://subscriber.politicopro.com/article/2022/02/top-defense-contractors-push-congress-to-extend-r-d-tax-break-00003726; Wall Street Journal, "Finance Chiefs Hope New Congress Will Revisit Tax Rule on R&D Expenses," Jennifer Williams-Alvarez, January 19, 2023, https://www.wsj.com/articles/finance-chiefs-hope-new-congress-will-revisit-tax-rule-on-r-d-expenses-11674150952; Defense One, "Defense Firms Brace for Billions of Dollars in New Taxes, And Hope for Congressional Relief," Marcus Weisgerber, February 25, 2022, https://www.defenseone.com/business/2022/02/defense-firms-brace-billions-dollars-new-taxes-and-hope-congressional-relief/362458/
[23] Raytheon Technologies Corporation, 10-K Annual Report, 2022, https://investors.rtx.com/static-files/324589ff-71a3-4ba0-8c29-f9199d37fdf2
[24] Politico, "Top defense contractors push Congress to extend R&D tax break," Lee Hudson, February 1, 2022, https://subscriber.politicopro.com/article/2022/02/top-defense-contractors-push-congress-to-extend-r-d-tax-break-00003726; Defense One, "Defense Firms Brace for Billions of Dollars in New Taxes, And Hope for Congressional Relief," Marcus Weisgerber, February 25, 2022, https://www.defenseone.com/business/2022/02/defense-firms-brace-billions-dollars-new-taxes-and-hope-congressional-relief/362458/

would come at an already incredibly profitable time for large defense contractors: A Pentagon study released this year explained that defense contractors are "generat[ing] substantial amounts of cash beyond their needs for operations or capital investment; the bulk is returned to shareholders so they can invest elsewhere."[25]

Despite these massive profits and low taxes, Raytheon spent a whopping $3.1 million lobbying for corporate tax breaks from January to March of this year, including a strong push to make the R&E deduction permanent and retroactively save $2 billion on their 2022 tax bill.[26] Raytheon is also a member of t the R&D Coalition, which has lobbied extensively for a retroactive and permanent extension of the R&E tax deduction.[27] Again, there is no evidence that amortizing R&E costs over five years impacts private investment at all.[28]

A revival of the R&E break would add to the billions in savings your companies have already received from the 2017 Trump tax cuts, but it is far from clear if that is the best use of taxpayer dollars. As Congress continues to debate corporate tax reform and government funding levels -- including proposals for further corporate tax giveaways, large increases on military spending, and cuts to other critical government programs -- we should understand how your company and other massive corporations will be rewarded.

To better understand how an extension and expansion of the 2017 Trump tax cuts would benefit Raytheon, we ask that you answer the following questions by no later than August 9, 2023.

1. How much have your companies saved in each year from 2018 to 2021 thanks to the R&E deduction?
2. How much do your companies expect to save in each year from 2022 to 2025 if the full R&E deduction is extended through 2025?
3. How much does your company expect to spend on lobbying expenses for tax purposes in 2023? How much of that spending will be on lobbying for an extension of the R&E tax deduction?

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[25] Federal News Network, "DoD study finds big vendors flush with cash, but concerns in the supply chain," Jared Serbu, April 11, 2023, https://federalnewsnetwork.com/defense-news/2023/04/dod-study-finds-big-vendors-flush-with-cash-but-concerns-in-the-supply-chain/

[26] Politico Pro, "Defense firms spend big to lobby for R&D write-offs," Lee Hudson, April 21, 2023, https://subscriber.politicopro.com/article/2023/04/defense-firms-spend-big-to-lobby-for-r-d-write-offs-00093285?source=email; Politico Pro, "Top defense contractors push Congress to extend R&D tax break," Lee Hudson, February 1, 2022, https://subscriber.politicopro.com/article/2022/02/top-defense-contractors-push-congress-to-extend-r-d-tax-break-00003726

[27] R&D Coalition, "R&D Coalition CFO Letter to House and Senate Leadership," November 4, 2022, https://investinamericasfuture.org/rd-coalition-cfo-letter-to-house-and-senate-leadership/

[28] American for Tax Fairness, "The Research Expensing Tax Deduction vs. The Research Tax Credit," June 12, 2023, https://americansfortaxfairness.org/issue/research-expensing-tax-deduction-vs-research-tax-credit/

4. Exactly how much of the $2 billion in retroactive tax refunds would you spend on R&E investments? Please list the investments that you would make in 2024 if the *Build It in America Act* is passed this year.[29]
5. If your company is rewarded with $2 billion in retroactive tax refunds, how do you expect it will affect Raytheon's outlook for stock buybacks and executive compensation?

Sincerely,

Elizabeth Warren
United States Senator

Chris Deluzio
Member of Congress

[29] Build It In America Act, H.R. 3938, https://www.congress.gov/bill/118th-congress/house-bill/3938

Congress of the United States
Washington, DC 20515

July 25, 2023

Phebe Novakovic
Chairman and Chief Executive Officer
General Dynamics Corporation
11011 Sunset Hills Road
Reston, Virginia 20190

Dear Ms. Novakovic:

We are writing regarding ongoing efforts to extend the 2017 Republican tax cuts for the wealthy and large corporations, including giant defense contractors like General Dynamics. The $1.9 trillion Trump tax cuts, which passed on a partisan basis with no Democratic votes, slashed the corporate tax rate and created numerous tax loopholes that help your company and other giant corporations further cut their effective federal income tax rate[1] while earning record profits.[2] Now, House Republicans, thanks to aggressive lobbying by General Dynamics,[3] are trying to extend these tax giveaways[4] while continuing to demand massive cuts to critical government programs relied on by millions of Americans.[5] We write to understand how these proposed additional tax breaks would benefit your company.

For generations, Republicans in Congress have driven up the deficit by shoveling tax breaks to the rich, and have then turned around and demanded cuts to critical safety net programs in the name of fiscal responsibility. Their recent debt ceiling fight was no different.[6] Just a few years

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[2] The Hill, "Corporate profits hit record high in third quarter amid 40-year-high inflation," Tobias Burns, November 11, 2022, https://thehill.com/business/3756457-corporate-profits-hit-record-high-in-third-quarter-amid-40-year-high-inflation/

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[4] House Committee on Ways and Means, "Ways and Means Passes the Build It in America Act to Restore American Competitiveness, Counter China's Growing Influence, Lower Gas Prices, Repeal Democrats' Green Special Interest Tax Breaks," June 13, 2023, https://waysandmeans.house.gov/ways-and-means-passes-build-it-in-america-act-to-restore-american-competitiveness-counter-chinas-growing-influence-lower-gas-prices-repeal-democrats-green-specia/

[5] The White House, "STATE FACT SHEETS: House Republicans' Appropriations Bills Would Have Devastating Impacts Across America," May 23, 2023, https://www.whitehouse.gov/omb/briefing-room/2023/05/23/state-fact-sheets-house-republicans-appropriations-bills-would-have-devastating-impacts-across-america/

[6] ABC News, "Top Republican pushes back on Biden, says new taxes in debt deal are nonstarter," Tal Axelrod, May 21, 2023, https://abcnews.go.com/Politics/gop-budget-chief-pushes-back-biden-new-taxes/story?id=99480777

after passing the 2017 Trump tax cuts – a deficit-busting $1.9 trillion handout to wealthy individuals and large corporations[7] – House Republicans leveraged a manufactured debt crisis to advance their extreme agenda, ultimately culminating in a deal that cuts funding in real terms for non-defense programs, while increasing[8] an already bloated military budget that serves large companies like yours. And recent reporting shows that Republican appropriators in the House are going even further, working to reduce non-defense funding below the spending levels agreed to in the debt ceiling deal.[9]

And they are not stopping there. Just two weeks after holding the economy hostage in the name of fiscal responsibility, House Republicans introduced a tax package that would extend two of the most expensive corporate giveaways from the TCJA through 2025[10] – 100% bonus depreciation and the net interest deduction – while also reviving the Research and Experimentation (R&E) deduction, a benefit that allows companies to deduct the full cost of R&E costs the year they are made, as opposed to writing them off over five years as they lose value.[11] Notably, the R&E deduction shift to five-year amortization was originally included in the TCJA to offset steep cuts to the corporate tax rate in the bill,[12] but some hoped that it would never come into force,[13] and now, thanks to lobbying from companies like yours, House Republicans are trying to reverse the switch. All in all, the entire Republican package would cost over $1.1 trillion over the next decade.[14] However, because Republicans know that tax cuts for large corporations are wildly unpopular, they have abused a budget timing gimmick to artificially lower their package's budget projections. By enacting it on a temporary basis, House Republicans can claim it will only cost $80 billion – or just 7% of the permanent cost.[15]

These tax breaks are nothing but corporate handouts. In the case of the R&E deduction, there is no evidence that shifting to a five-year amortization for R&E costs lowers private investment at

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[8] Defense News, "Debt ceiling agreement locks in Biden's proposed defense budget," Bryant Harris, May 28, 2023, https://www.defensenews.com/congress/budget/2023/05/29/debt-ceiling-agreement-locks-in-bidens-proposed-defense-budget/#:~:text=WASHINGTON%20%E2%80%94%20The%20debt%20ceiling%20agreement,defense%20spending%20to%20%24704%20billion
[9] NBC News, "A collision course over government funding raises fears of a shutdown," Sahil Kapur, July 10, 2023, https://www.nbcnews.com/politics/congress/collision-course-government-funding-raises-fears-shutdown-rcna88849
[10] The Committee for a Responsible Federal Budget, "Year-End 'Extenders' Could Worsen Deficits and Inflation," September 20, 2022, https://www.crfb.org/blogs/year-end-extenders-could-worsen-deficits-and-inflation
[11] *Id.*
[12] Center on American Progress, "House Bill Would Slash Business Taxes and Undermine Efforts to Stem Profit Sharing," Jean Ross, June 20, 2023, https://www.americanprogress.org/article/house-bill-would-slash-business-taxes-and-undermine-efforts-to-stem-profit-shifting/
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[15] *Id.*

all.[16] In fact, in 2022, after the R&E break expired, there was a *boom* in private R&E investment from large corporations,[17] including General Dynamics, which increased R&E spending by $65 million from 2021 to 2022.[18] Even worse, the proposed tax cut is retroactive to 2022, meaning that companies like yours would be able to get tax breaks on past investments, providing you and your shareholders with a massive windfall.[19] Meanwhile, Republicans plan on paying for their bill by gutting the clean energy credits passed through the Inflation Reduction Act.[20] These energy credits will help grow the U.S. economy up to $200 billion and create up to 1.3 million jobs nationally by 2030, mainly by incentivizing investments in research and domestic manufacturing.[21] All in all, despite claims of innovation and job creation, an analysis by the Joint Committee on Taxation described the bill's macroeconomic impact as "insignificant."[22] In other words, this bill would do nothing to stimulate the economy – but it would help your company juice its profits.

As one of the largest defense firms in the world, General Dynamics stands to make a fortune if the R&E deduction is extended or made retroactive by lowering their effective tax rate even lower than the 16% you paid last year – well below the 21% corporate tax rate.[23] While General Dynamics has not disclosed the exact dollar value of the R&E expiration, similarly-sized corporations like Lockheed Martin, Northrop Grumman, and Raytheon told investors that the expiration of R&E break added an estimated $500 million, $1 billion, and $2 billion to their 2022 tax bills, respectively.[24] This windfall would come at an already incredibly profitable time for large defense contractors: A Pentagon study released this year explained that defense contractors are "generat[ing] substantial amounts of cash beyond their needs for operations or capital investment; the bulk is returned to shareholders so they can invest elsewhere."[25]

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[17] *Id.*

[18] General Dynamics, 10-K Annual Report, 2022, https://www.sec.gov/ix?doc=/Archives/edgar/data/40533/000004053323000014/gd-20221231.htm

[19] Center on Budget and Policy Priorities, "Flawed House GOP Tax Package Chooses Wealthy Shareholders Over Children and Families and the Fight Against Climate Change," Chuck Marr and Samantha Jacoby, June 13, 2023, https://www.cbpp.org/research/federal-tax/flawed-house-gop-tax-package-chooses-wealthy-shareholders-over-children-and

[20] *Id.*

[21] Forbes, "Repealing IRA Energy Tax Credits Would Jeopardize Jobs in Red and Purple States," Silvio Marcacci, May 25, 2023, https://www.forbes.com/sites/energyinnovation/2023/05/25/repealing-ira-energy-tax-credits-would-jeopardize-jobs-in-red-and-purple-states/?sh=3db759b767d3

[22] Joint Committee on Tax, "Macroeconomic Analysis of H.R. 3938 The 'Build It In America Act,'" July 11, 2023, p. 5, https://www.jct.gov/publications/2023/jcx-34-23/

[23] General Dynamics, 10-K Annual Report, 2022, https://www.sec.gov/ix?doc=/Archives/edgar/data/40533/000004053323000014/gd-20221231.htm

[24] Politico Pro, "Top defense contractors push Congress to extend R&D tax break," Lee Hudson, February 1, 2022, https://subscriber.politicopro.com/article/2022/02/top-defense-contractors-push-congress-to-extend-r-d-tax-break-00003726; Defense One, "Defense Firms Brace for Billions of Dollars in New Taxes, And Hope for Congressional Relief," Marcus Weisgerber, February 25, 2022, https://www.defenseone.com/business/2022/02/defense-firms-brace-billions-dollars-new-taxes-and-hope-congressional-relief/362458/

Despite these massive profits and low taxes, General Dynamics spent a whopping $3 million lobbying for corporate tax breaks from January to March of this year, including a strong push to make the R&E deduction permanent.[26] General Dynamics is also a member of the Aerospace Industries Association, which has lobbied extensively for a retroactive and permanent extension of the R&E tax deduction.[27] Again, there is no evidence that amortizing R&E costs over five years impacts private investment at all.[28]

A revival of the R&E break would add to the billions in savings your companies have already received from the 2017 Trump tax cuts, but it is far from clear if that is the best use of taxpayer dollars. As Congress continues to debate corporate tax reform and government funding levels -- including proposals for further corporate tax giveaways, large increases on military spending, and cuts to other critical government programs -- we should understand how your company and other massive corporations will be rewarded.

[25] Federal News Network, "DoD study finds big vendors flush with cash, but concerns in the supply chain," Jared Serbu, April 11, 2023, https://federalnewsnetwork.com/defense-news/2023/04/dod-study-finds-big-vendors-flush-with-cash-but-concerns-in-the-supply-chain/

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[27] AIA, "Industry Leaders Call on Congress to Fix R&D Tax Change by Year End," December 2, 2022, https://www.aia-aerospace.org/news/industry-leaders-call-on-congress-to-fix-rd-tax-change-by-year-end/

[28] American for Tax Fairness, "The Research Expensing Tax Deduction vs. The Research Tax Credit," June 12, 2023, https://americansfortaxfairness.org/issue/research-expensing-tax-deduction-vs-research-tax-credit/.

To better understand how an extension and expansion of the 2017 Trump tax cuts would benefit General Dynamics we ask that you answer the following questions by no later than August 9, 2023.

1. How much have your companies saved in each year from 2018 to 2021 thanks to the R&E deduction?
2. How much do your companies expect to save in each year from 2022 to 2025 if the full R&E deduction is extended through 2025?
3. How much does your company expect to spend on lobbying expenses for tax purposes in 2023? How much of that spending will be on lobbying for an extension of the R&E tax deduction?
4. Exactly how much of a possible 2022 retroactive tax refunds would you spend on R&E investments? Please list the investments that you would make in 2024 if the *Build It in America Act* is passed this year.[29]
5. If your company is rewarded a retroactive tax refund for 2022, how do you expect it will affect General Dynamics' outlook for stock buybacks and executive compensation?

Sincerely,

Elizabeth Warren
United States Senator

Chris Deluzio
Member of Congress

[29] Build It In America Act, H.R. 3938, https://www.congress.gov/bill/118th-congress/house-bill/3938