



SENATE FINANCE &
SMALL BUSINESS COMMITTEE
JOINT ROUNDTABLE
ON SMALL BUSINESS & ENTREPRENEURSHIP

Michael Norris, CEO / President

Warrant Technologies, LLC

320 W 8th St, Suite 207

Bloomington, IN 47404

I'd like to begin by thanking you for this opportunity to speak today on behalf of Warrant Technologies.

Warrant Technologies LLC is a Veteran owned small business focused on system and software engineering. Founded in 2013, we are Headquartered in Bloomington, IN, and have 3 owning partners. We have employees in seven states totaling over 50 System & Software Engineers, Logisticians, and Instructional Designers. We are CMMI Software Development Level III accredited, we are CMMC compliant with SPRS Score of 110, hold a Top-Secret Facility Clearance, and have a DCAA Approved Accounting System. We have made use of Code Sections 174 and 41 Expenses and Credits from 2018 through 2022.

Warrant is a partner to our DoD customers and a provider in support of our men and women in uniform. We are proud of to play an active role in our Nation's defense. Warrant is considered a successful small business ("SB") – we've grown from a company of one employee to a company of 50+ employees and are projected to continue this trend.

SBs reinvest their dollars on improvements in process and tools, product development, developing technologies, improving infrastructure, attaining compliance with required standards, marketing, and hiring corporate leaders and managers such as CFO, COO, CIO, HR, FSO, IT, CPA, Lawyers, Consultants – All at indirect cost captured under overhead, G&A, or R&D.

With the dollars we reinvested as a SB, we developed our business in the following ways:

- Employed 11 interns in 2022
- Competed for work opportunities
- Hired legal & financial consultants (Lawyers, CPAs, etc)
- Sent 6 personnel through advanced training
- Bought operational tools, furniture, software

- Leased office space, paid utilities
- Insurances
- Benefits
- Hired two new corporate officers to manage growth

You may think - well those are just the cost of doing business – and you'd be right. Each of these costs are a critical part of doing business and they contribute to our economy. At this point in our life cycle, I conservatively estimate Warrant needs to find an additional \$500K this year to meet growing critical cost of doing business needs.

To effectively manage our continued growth, we project that we need:

- CMMC Accreditation: Cyber compliance with NIST 800. A Government mandate and for good reason but its cost is absorbed by the company – estimated cost \$50 - \$150K.
- CMMI Accreditation: Software development Government (NAVSEA) endorsed standard giving evidence of a business' ability to meet DoD software design and development needs – estimated cost \$75K to \$150K.
- Corporate Office: Hire a Contracts Officer, Human Resource Officer, Financial analyst, Receptionist, and a Recruiter – estimated cost \$400K.
- Training: On new tools and equipment – estimated cost \$80K.

With the dollars we reinvested as a SB, we conducted R&D of new technologies and product development (one recognized by NASA), we purchased lab equipment, improved processes, and infrastructure. All of this resulted in the creation of a new company, Thinker Labs LLC.

As of December 31st, 2021, expensing of R&D cost under Section 174, R&D credits under Section 41 and the 20% Pass Through are no longer permitted. These must now be amortized over five years.

Example: The impact on a small business with a net income of \$2.5 million dollars, in the 21% tax bracket is that in the first year their annual tax burden goes from \$315K to \$504K – an increase of 38%. This \$189K dollar difference represents a high-risk and high impact scenario for any SB – an error in this case would mean getting a bill some years later for \$189K in back taxes, interest, and penalties – just for this first year.

If these tax changes persist, the impact on small businesses, like Warrant Technologies, could be devastating. As a small business, I project our ability to do the following is either severely diminished or all together lost.

- Unable to meet growth and growing cost of doing business needs.
- Unable to invest in R&D.
- Outyear audits will result SB finding their expenses disallowed, and owing penalties and payback of expenses not amortized. This will result in the demise of many small businesses.

I know these committees recognize the value our small businesses play in our Nation's and local economies, our Nation's defense, and our ability to continue to outpace our advisories in technological

development. The involvement of small businesses in R&D efforts should be incentivized and rewarded through programs like Small Business Innovation Research (SBIR), Small Business Technology Transfer (STTR) and legislation like S.1739, the Small Business Innovation Voucher Act.

Fixing the tax burdens that start this year is in the interest of every small business, our Nation's economic growth, and the ability of our small business to continue thrive and pursue research and development efforts. Adoption of the American Innovation and Jobs Act (S.866) repeals this change and incentivizes small business growth and participation in R&D.

I thank the Finance Committee and the Small Business Committee for their willingness to hear Warrant's statement and act on behalf of the interest of small business. In particular, I thank Senator Young for his active leadership in support of the American Innovation and Jobs Act (S.866) and his unwavering support of Indiana small businesses.