

January 20, 2010

The Research & Development Credit

Creating Jobs, Growing America's Economy

THE FACTS

"This is a tax credit that returns \$2 to the economy for every dollar we spend. Yet over the years we've allowed this credit to lapse or we've extended it year to year -- even just a few months at a time. Under my budget, this tax credit will no longer fall prey to the whims of politics and partisanship. It will be far more effective when businesses like yours can count on it, when you've got some stability and reliability."

-- Remarks of President Barack Obama at the White House, March 23, 2009

Action Needed from Congress:

The R&D Credit expired December 31, 2009. Congress should include in the next available legislative vehicle a seamless extension (permanent or for as long a period as possible) of a strengthened credit.

Specifically, it is imperative that Congress acts to **strengthen the simplified credit** by extending and increasing the new alternative simplified credit ("ASC") rate from 14% to 20%. This would provide:

- An increased incentive to locate more R&D jobs in the United States; and
- A globally competitive credit for all research-intensive companies.

Background:

The R&D Credit Spurs Innovation, Economic Growth and Societal Benefits. The R&D Credit, created by Congress in 1981, spurs the creation of U.S.-based innovation and economic activity. It has fostered private sector R&D investment by companies of all sizes, helping to bring new, improved products and services to market. The list of these is nearly endless: energy-efficient appliances, new vaccines, faster Internet and communications capabilities, safer transportation, and improved national security to name just a few. Innovative ideas become reality when American companies make a strong commitment to invest in our future national prosperity.

Creates High-Wage, American Jobs. The credit is available only for certain qualified research performed in the United States. The credit is really a "jobs" provision since approximately 70% or more of the benefits of the credit are attributable to salaries of workers performing U.S. based research.

Home-Grown, American-Made Innovation. Only R&D performed in the U.S. may qualify for the R&D Credit. The Credit stimulates innovation-producing R&D investments in all 50 states across nearly 18,000 small, medium and large companies, according to a report by Ernst & Young LLP.

3% of GDP to R&D: In April, President Obama set out a goal of devoting more than 3% of U.S. GDP to research and development, citing declining rates of investments in technological innovation since the 1960s, saying "We will not just meet, but we will exceed the level achieved at the height of the Space Race."

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What's At Stake:

Key Research Projects Now Threatened. Innovation is an expensive, intricate and time-intensive enterprise that sparks a chain of investments in capital equipment, workers and spillover activities in every economic sector. In effect, the R&D Credit stimulates short-term business investment with long-term benefits to our economy.

Growing Global Competition. When the R&D Credit was first created, the U.S. had the distinction of providing the most generous tax treatment for research among all OECD nations. Today, that is not the case because the credit has been whittled away over the years due to our global competitors such as Canada, China, Japan and others that offer more aggressive R&D incentives. In fact, the U.S. has fallen out of the top 10 globally when measuring government incentives for private sector R&D and now measures 17th.

End the Stop-and-Go, Enact Long-term Certainty. A permanent extension of the Credit would enhance its incentive value because companies could count on the Credit throughout the term of their multiyear R&D projects. Uncertainty regarding the availability of the Credit automatically results in companies discounting its value.