

STATEMENT OF THE R&D CREDIT COALITION
SUBMITTED FOR THE RECORD OF THE HEARING ON
“FRAMEWORK FOR EVALUATING CERTAIN EXPIRING TAX PROVISIONS”
BEFORE
SUBCOMMITTEE ON SELECT REVENUE MEASURES
COMMITTEE ON WAYS AND MEANS
ON
June 8, 2012

Introduction

The R&D Credit Coalition welcomes the opportunity to provide comments for the record of the June 8, 2012, Committee on Ways & Means, Select Revenue Measures Subcommittee (“Committee”) hearing to examine “how Congress should evaluate certain tax provisions that either expired in 2011 or will expire in 2012.”

The R&D Credit Coalition thanks Select Revenue Measures Subcommittee Chairman Tiberi and Ranking Member Neal for giving Members the opportunity to discuss a framework for evaluating important tax extender provisions, such as the Research & Development (“R&D”) tax credit (also known as the Research & Experimentation tax credit). In addition, we would like to thank Ways & Means Committee members Kevin Brady (R-TX) and John Larson (D-CT) for their leadership in sponsoring H.R. 942 legislation that would provide a strengthened and permanent R&D tax credit. The credit expired on December 31, 2011, and we look forward to continuing our work with them to advance a seamless extension that would provide businesses with the certainty and incentives they need to maintain and increase R&D jobs here in the U.S.

The R&D Credit Coalition is a group of more than 100 trade and professional associations along with small, medium and large companies that collectively represent millions of American workers engaged in U.S.-based research throughout major sectors of the U.S. economy, including aerospace, agriculture, biotechnology, chemicals, electronics, energy, information technology, manufacturing, medical technology, pharmaceuticals, software and telecommunications.

Although the make-up of the R&D Credit Coalition is diverse, the member companies share a major characteristic—they collectively spend billions of dollars annually on research and development, which provides high-wage and highly-skilled jobs in the United States. There is significant global competition for R&D jobs, which means that companies have an array of choices on where to locate such jobs and where to invest research dollars—here in the U.S. or abroad. The high U.S. corporate tax rate and the temporary nature of the U.S. R&D tax credit, compared to the lower corporate tax rates and more stable, robust, and often permanent research incentives in most other developed countries, are key factors that companies consider in determining where they are going to create and maintain R&D jobs.

Even before the U.S. R&D credit expired at the end of 2011, on average a company claiming the credit only realized an effective credit rate of 6%. In addition, the U.S. requires that the corporate income tax deduction for R&D expenses be reduced by the amount of any R&D credit.

The inability of Congress to agree on a permanent incentive for U.S. research and development expenditures, including the failure of Congress to seamlessly extend the R&D tax credit, retroactive to January 1, 2012, will over the long-term have a dramatic impact on the number of R&D jobs created and maintained in the U.S. Given the Committee's focus on finding a long-term solution for tax extenders within the context of tax reform, the R&D Credit Coalition urges Congress to pass a strengthened credit in the short-term, with a seamless effective date to ensure that R&D jobs remain here in the U.S.

Discussion

The R&D tax credit, originally enacted in 1981, was designed to be an important incentive in spurring private sector investment in innovative research by companies of all sizes and in a variety of industries. The enactment of this incentive helped establish the U.S. as a leader in cutting-edge research. The purpose of the R&D tax credit is to encourage U.S. based research activity and to ensure that companies create high-paying jobs here in the U.S. In fact, during the 1980s, the U.S. was the leader among OECD countries in providing the best R&D incentives for companies. However, in recent years, many other countries have instituted more generous and often permanent R&D incentives. As a result, the U.S. today ranks 24th in research incentives among industrialized countries¹.

In contrast to the incentives offered by a number of other countries, the temporary nature of the U.S. R&D tax credit makes it a less powerful incentive in terms of a company's R&D budgets and decisions about where to locate new R&D activities. The certainty of a strengthened, permanent credit, especially in a tax reform environment, is critical to maintaining U.S. leadership in advanced research and encouraging companies to continue to spend R&D funds here in the U.S.

The R&D credit has a significant impact on private R&D spending and the creation of research jobs. A recent study by the Center for American Progress concludes that, "the credit is effective in the sense that each dollar of foregone tax revenue causes businesses to invest at least an additional dollar in R&D."² In addition, according to a recent study by Ernst & Young, "In total, the overall policy – the existing credit plus strengthening the alternative simplified credit – is estimated to increase annual private research spending by \$15 billion in the short-term and \$33 billion in the long-term."³

As noted above, many other countries offer *both* lower corporate tax rates and more attractive R&D incentives⁴. Accordingly, the U.S. should not engage in an "either/or" debate with respect to lower marginal rates and boosting U.S. job creation through R&D incentives when looking at options to reform the corporate tax code.

¹ OECD, "Science, Technology and Industry Scorecard," December 2009, p. 79.

² Center for American Progress, "The Corporate R&D Tax Credit and U.S. Innovation and Competitiveness," by Laura Tyson and Greg Linden, January 2012, p.2.

³ Ernst & Young, "The R&D Credit: An effective policy for promoting research spending," September 2011, p. i.

⁴ Deloitte, "Global Survey of R&D Tax Incentives," July 2011.

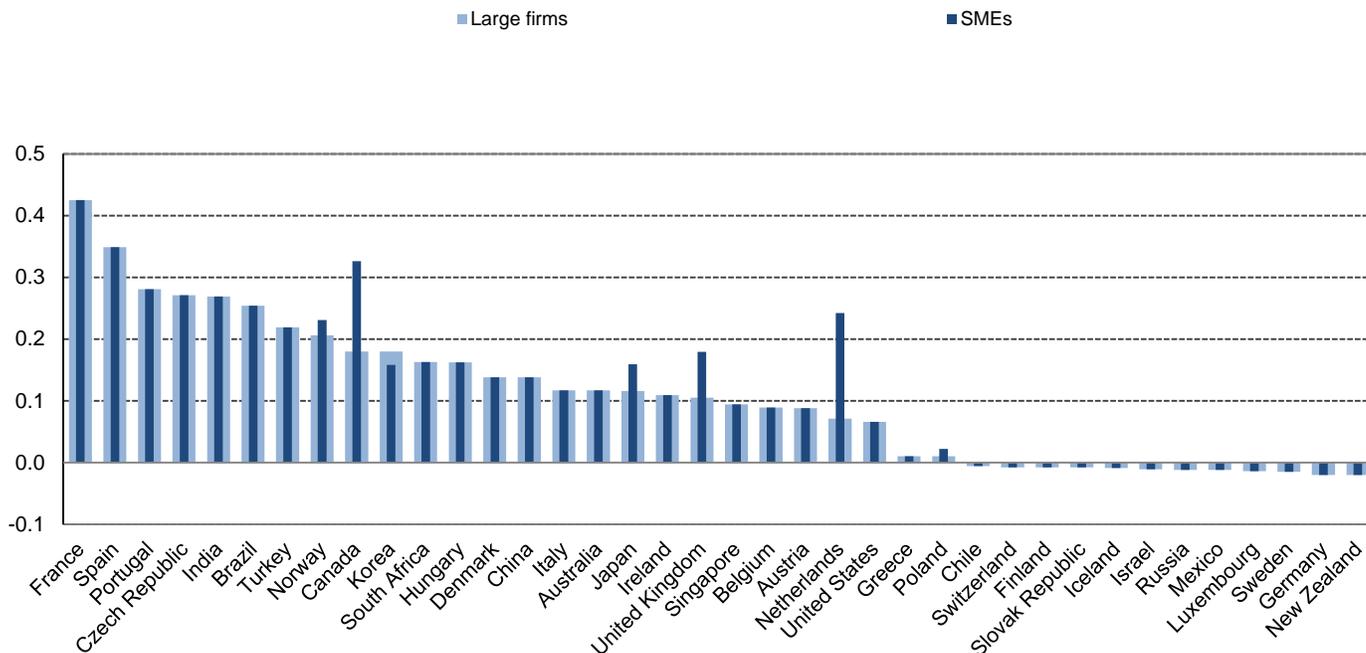
Moreover, it is important to note that the R&D credit is a *jobs* credit—70 percent of credit dollars are used to pay the salaries of high skilled R&D workers in the U.S. The E&Y study also stated that, “the credit and its enhancement is estimated to increase research-related employment by 140,000 in the short term and 300,000 in the long-term.”⁵

International R&D Tax Incentives

The U.S. must maintain a globally competitive tax system that supports high-skilled, high-paying jobs, here in the U.S. Failure to seamlessly extend the credit as soon as possible and failure to permanently strengthen the R&D tax credit will put current jobs at risk of moving abroad, and jeopardize the expenditure of R&D funds in the U.S. Research and development will continue; the question is where will the R&D jobs be located.

While the United States has offered an “on-again, off-again” incentive for more than 25 years, the number of OECD countries offering some sort of incentive for research has grown dramatically in recent years as countries attempt to become leaders in research. The U.S. share of global R&D fell from 39 percent in 1999 to 33 percent in 2007.⁶ In addition, the following OECD chart shows that in 2009, the United States ranked 24 among 38 industrialized countries offering R&D tax incentives.⁷

OECD Science, Technology and Industry Scoreboard 2009 - OECD © 2009 - ISBN 9789264063716
Tax subsidy rate for USD 1 of R&D, large firms and SMEs, 2008



⁵ Ernst & Young, “The R&D Credit: An effective policy for promoting research spending,” September 2011, p.11.

⁶ OECD, Ministerial Report on the OECD Innovation Strategy, May 2010, p. 8.

⁷ OECD, “Science, Technology and Industry Scorecard,” December 2009, p. 79.

A recent National Science Board report concluded that the United States' lead in science and technology is "rapidly shrinking" as R&D jobs and overall R&D spending continue to increase faster outside the U.S. than here at home. The report shows that "between 1999 and 2009...the U.S. share of global research and development (R&D) dropped from 38 percent to 31 percent, whereas it grew from 24 percent to 35 percent in the Asia region during the same time."⁸

Bipartisan Support for a Strengthened, Permanent Research & Development Incentive

On a positive note, there is broad and bipartisan support for extending the credit. Every Administration has supported the R&D tax credit since it was enacted. In a March 2011 study, the Treasury Department noted that, "[T]wo years ago, the President set an ambitious goal of achieving a level of research and development that is the highest share of the economy since the space race of the 1960's – 3 percent of GDP – a commitment he re-emphasized in his State of the Union address in 2011. The R&D tax credit is a vital component of achieving this goal and helping us out-innovate our competition. This is why, in addition to making it permanent, the President proposed...to expand and simplify the credit, making it easier and more attractive for businesses to claim this credit for their research investments. This proposal was subsequently included in the President's FY 2012 and FY 2013 Budget(s) and should be part of the reform of our corporate tax system currently under consideration."⁹

Moreover, Congress has extended the credit 14 times since it was first adopted in 1981. In 2011, Senate Finance Committee Chairman Max Baucus (D-MT) and Ranking Member Orrin Hatch (R-UT) introduced S.1577, The Greater Research Opportunities With Tax Help Act. Similar to H.R.942, this legislation would provide important certainty for U.S.-based research spending by making the R&D tax credit permanent as well as simplifying and strengthening it, thereby increasing its effectiveness.

Conclusion

The R&D Tax Credit was designed to ensure that companies conduct their research activities in the United States and create well-paying, highly skilled jobs here. That original purpose still holds true today, although increasing global competition is making it more difficult. It is vitally important that U.S. policy makers support a strengthened and permanent research and development incentive as part of any tax reform measure and seamlessly extend the credit as soon as possible. A robust and permanent research and development tax credit is critical to competitiveness, innovation and U.S. jobs. In the global economy many companies have a choice as to where they are going to do their research—and with many other countries offering *both* lower corporate income tax rates and more robust R&D incentives, the U.S. tax system must provide globally competitive R&D incentives that can be counted on by businesses. The R&D Credit Coalition looks forward to assisting members of the Committee and their staffs in gaining a more detailed understanding of the competitive pressures faced by companies as well as of the research and development tax credit and its impact on U.S. jobs. We also look forward to working together to advance legislation to seamlessly extend, strengthen and make permanent the R&D tax credit.

⁸ National Science Foundation press release, "New Report Outlines Trends in U.S. Global Competitiveness in Science and Technology," January 17, 2011.

⁹ "Investing in U.S. Competitiveness: The Benefits of Enhancing the Research and Experimentation (R&E) Tax Credit," U.S. Department of the Treasury, March 25, 2011, page 1.

Links to Studies:

Center for American Progress, “The Corporate R&D Tax Credit and U.S. Innovation and Competitiveness”

http://www.americanprogress.org/issues/2012/01/corporate_r_and_d.html

Ernst & Young, “The R&D Credit: An effective policy for promoting research spending”

http://www.investinamericasfuture.org/PDFs/EY_R&D_Credit_Report_2011_09_16.pdf

Deloitte, “Global Survey of R&D Tax Incentives,”

<http://www.investinamericasfuture.org/PDFs/Global%20RD%20Survey%20Final%20-%202011.pdf>

National Science Foundation press release, “New Report Outlines Trends in U.S. Global Competitiveness in Science and Technology”

http://www.nsf.gov/nsb/news/news_summ.jsp?cntn_id=122859&org=NSB&from=news

OECD, Ministerial Report on the OECD Innovation Strategy, May 2010

<http://www.oecd.org/dataoecd/51/28/45326349.pdf>

OECD, “Science, Technology and Industry Scorecard,” December 2009

http://www.oecd.org/document/21/0,3746,en_2649_33703_48714517_1_1_1_1,00.html

U.S. Department of the Treasury, “*Investing in U.S. Competitiveness: The benefits of Enhancing the Research and Experimentation (R&E) Tax Credit*”

<http://www.investinamericasfuture.org/PDFs/TreasuryRDRReportMarch25.PDF>

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