



R&D Tax Credit

A Strengthened, Permanent Incentive Would Promote Innovation and Jobs



- The research and development (R&D) tax credit expired on December 31, 2014, despite having been extended 16 times on a bipartisan basis since the credit was first enacted in 1981. The on-again, off-again nature of the credit influences companies' future R&D budgets, planning and investment decisions.
- First enacted more than 30 years ago, the credit is a proven incentive for spurring private sector investment in R&D and creating domestic, high-wage R&D jobs. For manufacturers, R&D fuels innovation that translates into new product development and increased productivity—two key factors necessary for growth in manufacturing.
- It's a U.S. jobs credit: 70 percent of credit dollars are used to pay salaries of high-skilled R&D workers. A recent study on tax reform finds that a strengthened, permanent R&D incentive would increase employment by over 36,000 jobs per year and contribute to annual increases in GDP and investment.¹ Moreover, only R&D performed in the United States qualifies for the credit.
- A strong R&D incentive is needed to keep the U.S. competitive in the global race for R&D investment dollars. A growing number of countries are courting manufacturers by providing more generous and permanent R&D tax incentives and lower corporate tax rates. The U.S. share of global R&D dropped to 33 percent in 2007 from 39 percent in 1999.² The United States is now ranked 22nd among industrialized countries in terms of the generosity of their R&D incentives.³
- The alternative simplified credit (ASC) formula makes it easier for companies of all sizes to use the R&D credit. To successfully compete with other countries for R&D dollars, the ASC formula needs to be strengthened from 14 to 20 percent. Studies show that enhancing the ASC to 20 percent would increase annual private research spending by an additional \$11 billion and increase research-related employment by 300,000 in the long term.⁴
- A strengthened, permanent R&D credit will enhance the credit's incentive value. Companies will know the credit will be available for the duration of an R&D project, typically 5-10 years for manufacturers.

How Congress Can Help

Seamlessly extend the R&D tax credit as soon as possible, and include a strengthened, permanent R&D incentive in any plan to reform the U.S. tax code.

¹ *A Missed Opportunity: The Economic Cost of Delaying Pro-Growth Tax Reform*. Donald Bruce, Ph.D., Tami Gurley-Calvez, Ph.D., Matthew Murray, Ph.D. January 2015.

² OECD, Ministerial Report on the OECD Innovation Strategy, May 2010, p. 8.

³ *Science, Technology and Industry 2013 Scoreboard*, Organization for Economic Co-operation and Development, December 2013.

⁴ *The R&D Credit: An effective policy for promoting research spending*. Drs. Robert Carroll, Gerald Prante and Robin Quek. Ernst & Young LLP. September 2011.

More Information

Presidential Support: The Administration's fiscal year 2016 budget included a permanent R&D credit with an increase in the alternative simplified credit (ASC) to 18 percent. The Administration released a document in 2011 about the merits of a strengthened, permanent credit, citing how "recent studies show that the credit produces approximately a dollar for dollar increase in current research spending..."⁵ The same report cited that an enhanced, permanent credit "will fund more than \$10 billion per year in research activity in the United States, supporting nearly 1 million jobs in research."⁶

The Credit's Multiplier Effect Boosts Jobs: When R&D is performed in the United States, domestic jobs of workers performing research activity are maintained and increased along with the jobs at the institutions that train the highly skilled scientists and engineers who are developing cutting-edge research. For every large company performing R&D in the United States, there are many small and medium-sized manufacturers in the supply chain who have employees performing R&D used by their larger customers. For example, in the defense industry, the extensive supply chains serve as incubators for the development of new, specialized technological innovations used in the R&D projects of large companies.

R&D Drives Economic Growth and Other Societal Spillover Benefits: R&D plays a critical role in the economic growth of a country, spurring the innovation and increased productivity necessary for a strong U.S. economy, which is necessary to support and provide a strong national security.

The Credit's Effectiveness: "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."⁷

Fierce Competition from Abroad: In 2012, the U.S. R&D tax credit was estimated to rank 27th among 42 countries in terms of R&D tax incentive generosity – down from five years ago when ranked was 23rd.⁸ While the United States is still the largest single R&D-performing country, the US "accounted for just under 30% of the 2011 global total, down from 37% in 2001."⁹ The top three R&D-performing countries' share of global R&D in 2011:

- United States: 30 percent
- China: 15 percent
- Japan: 10 percent¹⁰

China's R&D growth over the past 10 years has been high, at about 18 percent annually.¹¹ By 2020, China's total funding of R&D is expected to surpass that of the U.S.¹²

Largest User of Credit: Manufacturers in the United States perform more than three quarters of all private-sector R&D in the nation.¹³

Small Companies Benefit: Small companies (fewer than 500 employees) perform 19 percent of U.S. total business R&D.¹⁴

Bottom Line:

The U.S. needs a strong, permanent R&D incentive to boost innovation, drive economic growth, and enhance competitiveness. Absent action on a permanent R&D incentive this year, Congress should enact a seamless, multi-year extension of a strengthened credit.

For more information on the R&D Tax Credit, please visit the NAM at www.nam.org/Issues/Tax-and-Budget, the R&D Credit Coalition at www.investinamericasfuture.org, or e-mail tax@nam.org.

⁵ *Investing in U.S. Competitiveness: The Benefits of Enhancing the Research and Experimentation (R&E) Tax Credit*, U.S. Department of the Treasury, A Report from the Office of Tax Policy, March 25, 2011.

⁶ *Ibid*

⁷ *The Corporate R&D Tax Credit and U.S. Innovation and Competitiveness*, Center for American Progress, by Laura D'Andrea Tyson and Greg Linden, January 2012, p. 2.

⁸ *We're #27: The United States Lags Far Behind in R&D Tax Incentive Generosity*, ITIF, July 19, 2012.

⁹ *Science and Engineering Indicators-2014*, National Science Board, February 2014.

¹⁰ *Ibid*

¹¹ *Ibid*

¹² *2014 Global R&D Funding Forecast*, Battelle and R&D Magazine, December 2013.

¹³ Bureau of Economic Analysis, *National Economic Accounts by Industry*, 2013.

¹⁴ *Science and Engineering Indicators 2010*, National Science Board, 2010. (NSB 10-01), January 15, 2010, p. 4-4.