STATEMENT OF THE R&D CREDIT COALITION

ON

RESEARCH AND DEVELOPMENT INCENTIVES IN THE U.S. AND ABROAD

SUBMITTED FOR THE RECORD OF THE HEARING

ON

"HOW BUSINESS TAX REFORM CAN ENCOURAGE JOB CREATION"

BEFORE

THE COMMITTEE ON WAYS AND MEANS

ON

JUNE 2, 2011

Introduction

The R&D Credit Coalition welcomes the opportunity to provide comments for the record of the June 2, 2011 Committee on Ways and Means ("Committee") hearing to examine "major business and corporate tax issues and how changes to those aspects of the tax code, as part of comprehensive tax reform, might promote job creation and economic growth."[1]

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 generally share a major characteristic— they collectively spend billions of dollars annually on research and development ("R&D"), which provides for high-wage and highly-skilled jobs. Companies must decide where they are going to invest their 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 attractive research incentives in most other countries, are key factors that companies consider in determining where they are going to create R&D jobs. Today, the average company that claims the U.S. R&D credit only realizes a credit rate of 6%. In addition, the U.S. requires that the deduction for R&D expenses be reduced by the amount of any R&D credit.

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[1] http://waysandmeans.house.gov/News/DocumentSingle.aspx?DocumentID=242048 (Hearing Advisory)

Thus, corporate tax reform proposals limiting or eliminating research and development tax incentives could have a dramatic impact on both the number and location of R&D jobs in the U.S., as well as the ability of our companies to compete effectively in the global marketplace. Given the Committee's focus on "policy options that might encourage job creation in the United States,"[2] the R&D Credit Coalition would like to share our preliminary views regarding the impact of the R&D tax credit on job creation in the U.S., and the implications of regimes found in other countries that were designed to provide more competitive R&D incentives abroad.

Discussion

The R&D tax credit was originally enacted in 1981 and has provided an important incentive to spur 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 innovative research. In fact, during the 1980s, the U.S. was the leader among OECD countries in providing the best R&D incentives for companies. However, many of our foreign competitors have since instituted more generous R&D incentives in the decades following, causing the U.S. to drop below the top 10, and today ranks 24th in research incentives among industrialized countries. The temporary nature of U.S. R&D incentives is a strain on U.S. companies. Providing the certainty of a permanent credit, especially in a tax reform environment, is critical to maintaining U.S. leadership in innovative research and ensuring that U.S. companies will continue to do their R&D here in the U.S.

As was highlighted in oral testimony provided during the June 2nd hearing, **many other countries offer *both* lower tax rates and more attractive R&D incentives, proving that 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.**

The R&D credit is a *jobs* credit—with seventy percent of credit dollars used for salaries of high skilled R&D workers. A study by the Information Technology and Innovation Foundation (ITIF), "estimates that expanding the Alternative Simplified Credit (ASC) from 14 percent to 20 percent would spur the creation of 162,000 jobs in the short term and an additional, but unspecified, number of jobs in the longer run."[3] The U.S. must ensure that our tax system supports high-skilled, high-paying jobs, here in the U.S. We cannot let our tax system put these jobs at risk of moving abroad.

International R&D Tax Incentives

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.[4] In addition, the following OECD chart shows that in 2009, the United States ranked 24 among 38 industrialized countries offering R&D tax incentives.[5]

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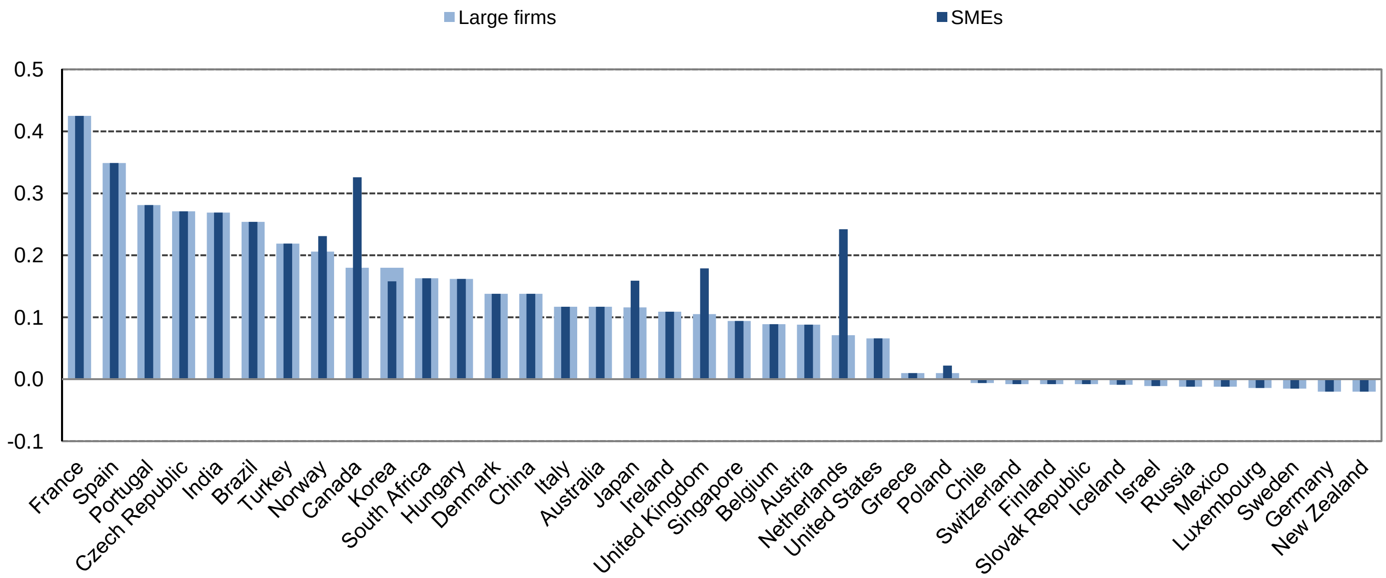
[2] *Id.*

[3] Information and Technology Innovation Foundation, "*Create Jobs by Expanding the R&D Tax Credit,*" by Robert D. Atkinson. January 26, 2010 (page 1)

[4] OECD, Ministerial Report on the OECD Innovation Strategy, May 2010, p. 8.

[5] OECD, "Science, Technology and Industry Scorecard," December 2009, p 79.

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



Bipartisan Support for a Strengthened, Permanent Research & Development Incentive

Every Administration has supported the R&D tax credit since its enactment. More recently, a March 25, 2011 Treasury Department study stated, "Two 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&E 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 on September 8, 2010 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 Budget and should be part of the reform of our corporate tax system currently under consideration."[6]

Moreover, Congress has extended the credit 14 times since it was first adopted in 1981. Earlier this year, Ways and Means Committee members Kevin Brady (R-TX), John Larson (D-CT) and many others introduced H.R. 942, The American Research and Competitiveness Act of 2011. This legislation would

[6] *"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.

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. We urge Congress to pass this legislation before the credit expires on December 31, 2011.

Conclusion

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. A robust and permanent research and development tax credit is critical to competitiveness, innovation and U.S. jobs. Congress must recognize, that in the global economy, 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. must ensure that R&D incentives are included as part of any tax reform package. The R&D Credit Coalition looks forward to assisting members of the Committee and their staffs to gain a more detailed understanding of the research and development tax credit and its impact on U.S. jobs.