

## **H.R. 880 -- American Research and Competitiveness Act of 2015**

**R&D Credit Formulas:** Under current law, taxpayers can use either of two R&D credit formulas. The “regular formula” allows a taxpayer to claim an incremental research credit equal to 20 percent of the amount by which the taxpayer’s qualified research expenses for a taxable year exceed a complicated base amount for that year, or a taxpayer can elect the “Alternative Simplified Credit” (ASC) formula, which is an incremental credit of 14 percent of qualified research expenses that exceeds 50% of average expenses for the 3 preceding years. Current law also includes a basic research credit for certain payments made to universities and other organizations and another credit for certain payments to energy research consortiums.

The R&D tax credit expired on December 31, 2014, creating further uncertainty for American innovators and job-creators. The credit has been extended 16 times since originally enacted into law over 30 years ago.

### **Explanation of Bill:**

- H.R. 880 would simplify and strengthen the R&D tax credit by increasing the ASC formula to 20% from 14% and eliminating the complicated regular credit formula, both changes effective retroactively to the beginning of 2015. There would be no transition from the regular formula to the strengthened ASC formula.
- The increased ASC credit of 20% would be calculated on qualified research expenses that exceed 50% of the average qualified research expenses for the three preceding taxable years. For start-up firms without any research expenses in any one of the preceding three years, the credit would be equal to 10% of the taxpayers qualified research expenses for the year.
- The bill would retain both the basic research credit for payments made for research by qualifying organizations such as universities and certain non-profit entities and the credit for payments to an energy research consortium.
- The bill would allow eligible small businesses to use R&D credits to offset both their regular tax liability and any AMT.
- The bill would make the R&D tax credit permanent effective for tax years after December 31, 2014.
- H.R. 880 passed the House of Representatives on May 20, 2015 by a vote of 274 - 145.

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