



# R&D Tax Credit

## A Strengthened, Permanent Incentive Would Promote Innovation and Jobs



- The research and development (R&D) credit—used by companies of all sizes—expired on December 31, 2013, for the 16th time. The uncertainty of an on-again, off-again credit influences companies’ future R&D budgets, particularly when manufacturers are courted by other countries with more generous and permanent R&D tax incentives and lower corporate tax rates.
- 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. According to the Milken Institute’s report, *Jobs for America* (January 2010), if the credit were strengthened and made permanent, total employment would increase by 510,000 within a decade. Moreover, only R&D performed in the United States qualifies for the credit.
- The credit is needed to keep the United States competitive in the global race for R&D investment dollars. In 2009, the United States ranked 24 out of 38 industrialized countries offering R&D tax incentives.<sup>1</sup> In 2009, the U.S. share of global R&D dropped to 31 percent from 38 percent in 1999.<sup>2</sup>
- The alternative simplified credit (ASC) formula—increased to 14 percent in 2009—makes it easier for companies of all sizes to use the R&D credit. To compete successfully with other countries for R&D dollars, the ASC formula needs to be strengthened to 20 percent.
- A strengthened, permanent R&D credit will enhance the credit’s 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 credit as soon as possible, and include a strengthened, permanent R&D incentive in any plan to reform the U.S. tax code.**

### More Information

**Presidential Support:** The Administration’s fiscal year 2015 budget included a permanent R&D credit with an increase in the ASC to 17 percent. In March 2011, the Administration released a document about the merits of a strengthened, permanent credit, citing “recent studies show that the credit produces approximately a dollar for dollar increase in current research spending...”<sup>3</sup>

**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.

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<sup>1</sup> *Science, Technology and Industry Scoreboard 2009*, Organization for Economic Co-operation and Development, December 2009.

<sup>2</sup> *Science and Engineering Indicators—2012*, National Science Board, January 17, 2012, pp. 4–5.

<sup>3</sup> *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, p. 2.

For every large company performing R&D in the United States, there are many small and medium-sized manufacturers in the supply chain that 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 strong national security—a basic and fundamental role of the U.S. government for its citizens.

**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.”<sup>4</sup>

**Fierce Competition from Abroad:** The top three R&D-performing countries' share of global R&D in 2009:

- United States: 31 percent
- China: 12 percent
- Japan: 11 percent<sup>5</sup>

Asian economies are driving global funding growth by significantly increasing their share of global R&D spending, with the largest share coming from China.<sup>6</sup>

China's investment in R&D over the past 10 years has been high, at about 20 percent annually.<sup>7</sup>

In 2012, the U.S. R&D tax credit ranked 27th out of 42 countries in terms of R&D tax incentive generosity—down from five years ago when it ranked 23rd.<sup>8</sup>

**Largest User of Credit:** Manufacturers claimed nearly 70 percent of R&D credit amounts in tax year 2009.<sup>9</sup>

**Small Companies Benefit:** Small companies (fewer than 500 employees) perform 19 percent of U.S. total business R&D.<sup>10</sup>

### Bottom Line:

The United States 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, multiyear extension of a strengthened credit.

For more information, visit the NAM at [www.nam.org/tax](http://www.nam.org/tax), the R&D Credit Coalition at [www.investinamericasfuture.org](http://www.investinamericasfuture.org), Deloitte's “2013 Global Survey of R&D Tax Incentives” or e-mail [tax@nam.org](mailto:tax@nam.org).

<sup>4</sup> Laura Tyson and Greg Linden, *The Corporate R&D Tax Credit and U.S. Innovation and Competitiveness*, Center for American Progress, January 2012, p. 2.

<sup>5</sup> *Science and Engineering Indicators—2012*, National Science Board, January 17, 2012, pp. 4–5.

<sup>6</sup> *2013 Global R&D Funding Forecast*, Battelle and *R&D Magazine*, December 2012, p. 3.

<sup>7</sup> *Science and Engineering Indicators—2012*, National Science Board, January 17, 2012, pp. 4–6.

<sup>8</sup> “We're #27: The United States Lags Far Behind in R&D Tax Incentive Generosity,” Information Technology & Innovation Foundation, Executive Summary, July 19, 2012.

<sup>9</sup> *IRS Statistics of Income, Tax Stats—Corporate Research Credit*, Tax Year 2009, Table 1, March 21, 2012.

<sup>10</sup> *Science and Engineering Indicators 2010*, National Science Board, 2010. Arlington, VA: National Science Foundation (NSB 10-01), January 15, 2010, p. 4.