

The Research & Development Credit

Creating Jobs, Growing America's Economy

Background:

- **The R&D Credit Spurs Innovation, Economic Growth and Societal Benefits.** The R&D Credit, which was created by Congress in 1981, spurs the creation of U.S.-based innovation and economic activity. It has fostered private sector R&D investment by companies of all sizes in America, helping to bring new, improved products and services to market. The list of these is nearly endless: energy-efficient appliances, new vaccines, faster Internet and communications capabilities, safer transportation, and improved national security to name just a few. Innovative ideas become reality when American companies make a strong commitment to invest in our future national prosperity.
- **Creates High-Wage, American Jobs.** At a particularly volatile time for U.S. workers, more than 70% of R&D Credit dollars go to wages for high-skilled, high-paying jobs in the United States. In some industries, more than 90% of credit goes directly to employee wages.
- **Wide Majority of Americans Support the Credit.** *Roughly 7 in 10 Americans support Congress extending or expanding the R&D Credit*, according to a recent survey by Zogby International conducted for the R&D Credit Coalition.
- **American-Made Innovation.** Only R&D performed in the U.S. may qualify for the R&D Credit. **The Credit stimulates innovation-producing R&D investments in all 50 states across nearly 18,000 small, medium and large companies, according to a new report by Ernst & Young LLP.**

What's At Stake:

- **Key Research Projects Now Threatened.** Congress allowed the R&D Credit to expire December 31, 2007, putting important research projects – *and U.S. jobs that support this critical research* -- in jeopardy. Innovation is an expensive, intricate and time-intensive enterprise that sparks a chain of investments in capital equipment, workers and spillover activities in every economic sector. In effect, the R&D Credit stimulates short-term business investment with long-term benefits to our economy.
- **Growing Global Competition.** When the R&D Credit was first created in 1981, the U.S. had the distinction of providing the most generous tax treatment for research among all OECD nations. Today, that is not the case because the credit has been whittled away over the years due to our global competitors such as Canada, China, India, Japan and others that offer more aggressive R&D incentives. In fact, the U.S. has fallen out of the top 10 globally when measuring government incentives for private sector R&D.
- **End the Stop-and-Go, Enact Long-term Certainty.** A long-term extension of the expired Credit would enhance its incentive value because companies could count on the Credit throughout the term of their multiyear R&D projects. Uncertainty regarding the availability of the Credit automatically results in companies discounting its value.

Action Needed from Congress:

- **Strengthen the simplified credit** by extending and increasing the new alternative simplified credit ("ASC") rate from 12% to 20%. This would provide increased incentive to locate more R&D in the U.S. and a globally competitive credit for all research-intensive companies.
- **Extend the traditional credit.** Such an extension would retain a powerful incentive and provide continuity for long-time users of the Credit.
- **Extend the R&D Credit at a commensurate rate for all companies.** Because the Credit has lapsed, businesses are unable to factor the full benefits of the R&D credit into their research budgets. A multi-year, seamless extension would:
 - Increase the general effectiveness of the credit;
 - Allow for better planning of company R&D;
 - Prevent financial reporting issues caused by temporary lapses.