

May 26, 2005

**Cosponsor S. 627  
Making the Research Credit Permanent**

Dear Colleague:

Every morning, we hear news of some new product or discovery that promises to make our jobs easier or our lives better. Many of these innovations started with a business decision to hire researchers and finance the expensive and long process of research and development. Since 1981, when the research tax credit was first enacted, the federal government has been a partner in these endeavors because of the spillover benefits to society from additional research spending.

The research tax credit is scheduled to expire at the end of this year, and it is time for Congress to take action to enhance, and finally make permanent, this important tax incentive. Our legislation, S. 627, "The Investment in America Act of 2005," recognizes the value of the research credit by making it permanent and enhancing it so that even more firms that conduct research in the U.S. can qualify.

In 2004, during the debate over the JOBS Act, the Senate unanimously approved doing more than just simply extending current law. By a vote of 93-0, the Senate went on record in favor of an enhanced, more widely available research credit. By cosponsoring S. 627, you can reaffirm your view that a robust research credit should be a permanent part of the tax code.

Extending the research credit is an important step for the future economic growth of the United States. An enhanced and permanent credit can help our economy develop the new technologies that will enhance existing capital inputs and make workers more productive. The result will be a stronger economy at home, and a more competitive nation abroad.

If we allow the research credit to expire, we will see the negative effects manifest in lower economic growth, fewer jobs created, fewer innovative products, and lost opportunities as research activities move to other countries that offer more attractive incentives. We should never forget that our nation's future economic health is dependent on the innovations of today.

Please become a cosponsor of S. 627, "The Investment in America Act of 2005," by contacting Evan Liddiard (Hatch) at 4-0619 or Melissa Mueller (Baucus) at 4-5315.

Sincerely yours,



Max Baucus  
United States Senator



Orrin G. Hatch  
United States Senator

## Summary of S. 627 Investment in America Act of 2005

The research tax credit was originally enacted in 1981 and has been extended 11 times. It is scheduled to expire at the end of 2005. Taxpayers receive a 20 percent credit for qualified R&D expenditures in excess of a calculated base amount. There is also an alternative incremental research credit (AIRC) in current law. The AIRC computation combines a three-tiered fixed-base percentage with a reduced three-tiered credit percentage. The research credit is available only for R&D expenditures incurred in the U.S. The primary categories of qualified R&D expenditures are wages paid to employees performing qualified research activities, a portion of the amount paid to outside contractors for the performance of qualified research, and the expenditures for supplies used in the conduct of qualified research.

S. 627 would:

- **Make the research credit permanent.** As noted above, the credit was first enacted in 1981 and has been extended 11 times, with a one-year gap in the late 1990s. It is a proven, effective incentive for companies to increase their research and development activities in the United States. However, because the credit has been extended only for short durations, companies are unable to factor the full benefits of the research credit into their budgets because of its continuing short-term nature. S. 627 would eliminate the sunset date, thus enabling companies to more easily engage in long-term research projects.
- **Increase the AIRC rates to those originally proposed.** The rates originally proposed for the AIRC were scaled back at the time of enactment in 1996. As originally proposed, the AIRC rates ranged from 3 percent to 5 percent, depending on the levels of qualified R & D spending relative to a base amount. S. 627 would increase the AIRC rates by between 0.35 percent and 1.25 percent, to the rates originally proposed.
- **Provide a new Alternative Simplified Credit.** Under S. 627, taxpayers would be allowed to elect a new alternative simplified credit equal to 12 percent of qualified research expenses for the taxable year in excess of 50 percent of the average qualified research expenses for the 3 prior taxable years. Although the current statutory incentive is effective for many companies, this new simplified credit would provide an incentive to companies that spend significant amounts on R&D in the United States but get little or no benefit from the current credit due, for example, to changing business models.

S. 627 is supported strongly by the R&D Credit Coalition, which is a group of more than 85 trade and professional associations and more than 1,000 small, medium and large companies engage 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.