

ManuFACTS: R&D Tax Credit

A Strengthened, Permanent Incentive Would Promote Innovation and Jobs

- **The R&D credit – used by companies of all sizes – expired December 31, 2011, for the 15th 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 U.S. competitive in the global race for R&D investment dollars. In 2009, the United States ranked 24 among 38 industrialized countries offering R&D tax incentives.¹ In 2009, the U.S. share of global R&D dropped to 31 percent from 38 percent in 1999.²**
- **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 successfully compete with other countries for R&D dollars, the ASC formula needs to be strengthened to 20 percent.**
- **A strengthened, permanent 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.**

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

² *Science and Engineering Indicators-2012*, National Science Board, January 17, 2012, p. 4-5.

How Congress Can Help

Cosponsor bipartisan R&D tax credit bills in the House and Senate to strengthen the ASC to 20 percent, make it permanent and repeal the regular credit formula. The American Research and Competitiveness Act (H.R. 942) was introduced by House Ways and Means Committee members Kevin Brady (R-TX) and John Larson (D-CT). The Greater Research Opportunities with Tax Help (GROWTH) Act (S. 1577) was introduced by Senate Finance Committee Chairman Max Baucus (D-MT) and Ranking Member Orrin Hatch (R-UT).

More immediately, lawmakers should seamlessly renew the expired credit as soon as possible.

More Information

Presidential Support: The Administration's fiscal year 2013 budget included a permanent R&D credit with an increase in the alternative simplified credit (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..."³

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.

For every large company performing R&D in the United States, there are many small and medium-sized manufacturers in the supply chain who 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 a 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."⁴

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 percent⁵

Asian economies are driving global funding growth. They are expected to increase 9 percent in 2012, while the U.S. is forecast to grow 2.1 percent.⁶

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

Largest User of Credit: Manufacturers claimed nearly 70 percent of R&D credit amounts in tax year 2009.⁸

Small Companies Benefit: Small companies (fewer than 500 employees) perform 19 percent of U.S. total business R&D.⁹

Bottom Line

The R&D credit should be strengthened and made permanent. Absent action this year on a permanent incentive, Congress should enact a seamless, multi-year extension of a strengthened credit early in 2012.

³ *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.

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

⁵ *Science and Engineering Indicators-2012*, National Science Board, January 17, 2012, p. 4-5.

⁶ *2012 Global R&D Funding Forecast*, Battelle and *R&D Magazine*, December 2011, p. 3.

⁷ *Science and Engineering Indicators-2012*, National Science Board, January 17, 2012, p. 4-6.

⁸ *IRS Statistics of Income, Tax Stats-Corporate Research Credit*, Tax Year 2009, Table 1, March 21, 2012.

⁹ *Science and Engineering Indicators 2010*, National Science Board, 2010. Arlington, VA: National Science Foundation (NSB 10-01), January 15, 2010, p. 4-4.

More Information

For more information on the R&D Tax Credit, please visit the NAM at www.nam.org/tax, the R&D Credit Coalition at www.investinamericasfuture.org, or the Deloitte "2011 Global Survey of R&D Tax Incentives" at www.nam.org/Deloitte_RD_Survey.
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