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EXPIRATION OF R&D TAX CREDIT WOULD WEAKEN ECONOMIC PROSPERITY AND NATIONAL SECURITY, SAYS SIA

-Semiconductor Industry Association calls for immediate action to extend credit -

San Jose, Calif., – June 29, 2004 – Expiration of the tax credit for research and development would weaken U.S. economic prosperity and national security by increasing the cost of R&D essential to maintaining leadership in technology, the Semiconductor Industry Association (SIA) said today.

“U.S. semiconductor companies spent approximately \$14 billion – 17 cents out of every dollar of revenue – on R&D in 2003,” said SIA President George Scalise. “The R&D tax credit has been an effective and important incentive for U.S. chipmakers to sustain a strong commitment to R&D investment regardless of economic conditions. This important incentive will expire tomorrow unless Congress extends the credit retroactively to June 30. Loss of the tax credit would significantly increase the cost of R&D and reduce the total amount of money available for such activities. Maintaining leadership in semiconductor technology is vital to our national security and economic prosperity, and a sustained commitment to investing in R&D is the key to leadership,” Scalise said.

The R&D tax credit has been extended, for short periods of time, an unprecedented 10 times, creating a high degree of uncertainty in the planning process. “Congress should make this tax credit permanent to assure a sustained commitment over a long period of time,” said Scalise. “We are gratified that both the House and Senate have approved bills to extend the tax credit. We hope that the final bill will include modifications contained in the Senate version that strengthen the incentive value of the tax credit and enable more companies to undertake research activities in the United States.”

Both the House-passed “American Jobs Creation Act” and the Senate-passed “Jumpstart Our Business Strength Act” extend the credit until December 2005. Scalise noted that the Senate bill also addresses a number of concerns that arise under the current tax credit law. “Many companies invest significant sums on R&D yet cannot use the credit as currently structured,” he said. “The amount of the alternative incremental credit is too small to be effective and the rules governing R&D performed at consortia or under contract are outdated.”

The Senate bill has a small (at most 1.25 percentage points) increase in the incremental credit, allows taxpayers to calculate the credit using a simplified alternative formula, establishes a 20 percent credit for payments to nonprofit research consortia, and makes 100 percent of expenses for contract R&D eligible for the credit.

About the SIA

The SIA is the leading voice for the semiconductor industry and has represented U.S. semiconductor companies since 1977. Collectively, the chip industry employs a domestic workforce of 255,000 people. More information about the SIA can be found at www.sia-online.org.