

**Information Technology Association of America  
AeA (American Electronics Association)  
Alabama Information Technology Association  
Arizona Technology Council  
Business Software Alliance  
California Healthcare Institute  
Computing Technology Industry Association (CompTIA)  
Connecticut Technology Council  
Eastern Technology Council  
Electronic Industries Alliance (EIA)  
IEEE-USA  
Information Technology Council of North Dakota (ITCND)  
Massachusetts Technology Leadership Council  
SEMI North America  
Software Finance and Tax Executives Council  
Software & Information Industry Association  
New Jersey Technology Council  
North Carolina Technology Association  
Northern Virginia Technology Council  
The Technology Council of Central Pennsylvania  
Technology Council of Northwest Pennsylvania  
Telecommunications Industry Association  
Washington Software Alliance**

October 21, 2005

The Honorable Charles Grassley  
Chairman  
Committee on Finance  
United States Senate  
Washington, D.C. 20510

The Honorable Bill Thomas  
Chairman  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, D.C. 20515

The Honorable Max Baucus  
Ranking Member  
Committee on Finance  
United States Senate  
Washington, D.C. 20510

The Honorable Charles Rangel  
Ranking Member  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Chairmen Grassley and Thomas, and Ranking Members Baucus and Rangel:

On behalf of the high technology industry of the United States, we strongly urge you to strengthen and extend the Research and Experimentation Tax Credit (R&D Credit) before it expires at the end of the calendar year. A stable credit allows companies to incorporate it into their long-term strategic business planning, thus devoting more money to research and development than they would otherwise. R&D is a long-term process, and companies must make planning decisions for years to

come based not on the hope of an extension but on the existing law. A lapse, or the threat of a lapse, makes this planning very difficult.

In addition, a lapse would impact earnings and in some cases stock prices, particularly problematic for the economy at this time. If there is any uncertainty regarding the availability of the credit, companies will discount its value, which will have the counterproductive effect of reducing the credit's benefit to the economy.

We strongly believe the changes proposed in companion bills S. 627 and H.R. 1736 would significantly strengthen the current credit by increasing the Alternative Incremental Credit (AIRC) rates and by providing an alternative simplified credit (ASC) calculation. These enhancements will allow more companies to take advantage of the credit and increase their investment in innovation. Taken together, these changes will represent a critical investment in America's future.

The R&D Credit supports technological innovations that enable U.S. high technology companies to create and preserve a high quality of life for all Americans. Many positive economic benefits are driven by the performance of research and development, including increased revenue streams to U.S. companies that enhance their ability to hire employees, purchase capital goods, pay dividends to shareholders and contribute to a strong U.S. tax base. It also secures U.S. leadership in areas that are critical to sustained economic growth and U.S. and global security.

Successful research and development not only affects the kinds of goods that flow to consumers, but also enhances the labor and capital inputs used to produce them. It is widely agreed that firms doing research and development do not capture all or even most of their investment through the price mechanism. The existence of the essentially free spillovers means the social return from research and development exceeds the private return.<sup>1</sup> Significant social benefits from conducting research and

development in the U.S. include the creation of quality jobs with higher-than-average wages, a more educated and adaptable workforce, and upward social and economic opportunities for a broad segment of the population.

The Credit also plays a vital role in ensuring U.S. competitiveness in worldwide markets. R&D helps U.S. manufacturers and services companies maintain a competitive edge over lower-cost foreign competitors by increasing productivity and fostering innovation. In fact, a growing number of countries recognize how important R&D spending is to future economic growth and now offer more generous R&D tax incentives than the U.S. Canada, for example, offers a flat 20-percent credit, among other tax incentives, for R&D performed in Canada and has aggressively sought to entice U.S. companies to locate R&D activities north of the border. Foreign nations are not only lowering their overall tax rates, they are also providing robust and stable research and development tax incentives in order to access U.S. knowledge and expertise. We must have a strong research and development tax credit in the U.S. that is widely available to a broad range of research-intensive companies.

America's future is inextricably linked to the ability of companies to make a sustained, reliable commitment to long-term research conducted in the U.S. Congress has consistently demonstrated

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<sup>1</sup> *Securing America's Future: The Case for a Strong Manufacturing Base*, a report by Joel Popkin and Company for the National Association of Manufacturers, June 2003.

support for the R&D Credit. In order to provide stability and to guarantee that all companies performing research in the U.S. are able to benefit from the credit, we ask for your strong support this year in ensuring that Congress strengthens and extends the credit for the long term.

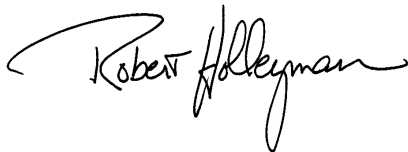
Sincerely,



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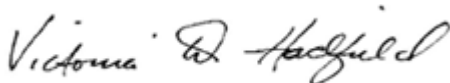
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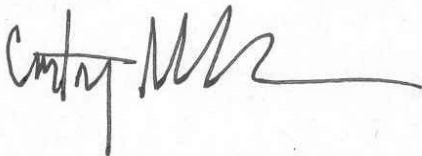
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