

RESEARCH AND EXPERIMENTATION TAX CREDIT

Jobs * Innovation * Competitiveness * Growth

- ◆ It is imperative that Congress act as soon as possible in 2007 to:
 - **Strengthen the simplified credit** by permanently extending and increasing the new alternative simplified credit ("ASC") rate from 12% to 20%. This would provide:
 - a greater incentive to companies to spend more on R&D in the United States; and
 - a credit that is globally competitive for all research-intensive companies.
 - **Extend the traditional credit.** Such an extension would:
 - retain a powerful incentive for many companies; and
 - provide continuity for long-time users of this credit.
 - **Permanently extend the R&D Credit at a commensurate rate for all companies.** The R&D Credit should be available to all companies at a commensurate rate to ensure that there is meaningful incentive to increase R&D investment in all sectors of the economy. The credit is a proven, effective incentive for companies to increase their research and development activities in the United States. However, because it is temporary, businesses are unable to factor the full benefits of the R&D credit into their research budgets. A permanent extension would:
 - increase the general effectiveness of the credit;
 - allow for better quality corporate planning;
 - help maintain and create high-paying US jobs; and
 - prevent financial reporting issues caused by temporary lapses.
- ◆ The R&D tax credit was originally enacted in 1981 and has been extended 12 times. In December 2006, after a nearly year-long lapse, Congress passed a seamless extension of current law and strengthened prospectively the credit in the Tax Relief and Health Care Act of 2006. The credit is scheduled to expire again on December 31, 2007.
- ◆ The credit is available only for certain qualified research performed *in the United States*. The credit is really a "jobs" provision since the primary categories of qualified R&D expenditures are: wages paid to employees performing qualified research activities in the U.S., a percentage of the amount paid to outside contractors for the performance of qualified research in the U.S., and the expenditures for supplies used in the conduct of qualified research.
- ◆ The R&D tax credit serves as a crucial driver of R&D investment location decisions. In an increasingly competitive global environment – with foreign governments actively recruiting American companies to base research operations abroad – the credit helps make the United States a more attractive location to base R&D.

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