

EXPANDED, SIMPLIFIED AND PERMANENT RESEARCH AND EXPERIMENTATION TAX CREDIT

The President proposes to expand, simplify, and permanently extend the Research and Experimentation Tax Credit in order to help companies create good jobs in America now while increasing future productivity and growth. This is a win-win—encouraging job growth and investment now that will pay off with stronger economic growth in the future.

Specifically, the President proposes to:

- **Expand the R&E credit by about 20 percent.** This would be the largest increase in the credit in its history. In total, the expanded credit would devote about \$100 billion over the next 10 years to leverage additional R&D investment. Like the current credit, eligible research and experimentation needs to be performed in the United States, keeping high-skilled jobs in America.
- **Simplify the credit.** Currently, businesses must choose between using a complex formula for calculating their R&E credit that provides a 20 percent credit rate for investments over a certain base and a much simpler one that provides a 14 percent credit in excess of a base amount. The complex formula is, in fact, so outdated that it takes into account the amount of a business's R&D expenses from 1984 to 1988. The Administration proposes to increase the rate of the simpler credit to 17 percent, which would make it more attractive and simplify tax filing for businesses. Simplifying the credit in this manner will increase its salience and impact on encouraging investment in research in the United States.
- **Permanent credit.** The President would make the credit permanent so that businesses could make investments and create jobs today confident that they will continue to benefit from the credit in the future. The President supports fully paying for this permanent tax policy, for example with the over \$300 billion in loophole closers and other measures proposed in the FY 2011 Budget.

An expanded, simplified, and permanent R&E credit will help keep the U.S. economy at the cutting-edge of 21st century technologies, while expanding high-tech jobs, encouraging innovation, and increasing future productivity and growth:

- **Increasing business certainty.** The credit has been extended 13 times since its creation in 1981, with some extensions lasting just 6 months, and has also been allowed to lapse since the end of last year. However, although Republicans have supported extension in the past, they have voted against it multiple times this year, and are now blocking legislation that would renew this credit, creating uncertainty with two-thirds of the year already complete. Making this provision permanent would avoid this type of outcome and give businesses the certainty they need to accelerate R&E investments to create jobs today and in the future.
- **80 percent of the benefit directly supports jobs in the United States, and every dollar spent encourages U.S.-based investment.** Four-fifths of tax credits are attributable to salaries of U.S. workers performing U.S.-based research—meaning that the credit helps

create high-skilled jobs, as well as encouraging new innovations and future productivity. The entire credit goes to research and experimentation in the United States, with additional spillover benefits for jobs.

- **Increase competitiveness to prevent the United States from falling further behind other countries in tax incentives for R&E.** Increasing the R&E tax credit will strengthen innovation at home and make the United States more competitive abroad—helping us to reach our goal of bringing total R&D to 3 percent of GDP. In the 1980s, the United States was the leader in generous tax treatment of R&D; however, today many nations now provide far more generous tax incentives for research than does the United States. By 2008, we had fallen to 17th in generosity for general R&D amongst OECD nations. ([Information Technology and Innovation Foundation](#)) Among nations with tax incentives for R&D, the United States now provides one of the weakest incentives, below our neighbors Canada and Mexico, and behind many Asian and European nations.
- **Leverage—each \$1 spent on the tax credit creates \$2 of benefits for the economy.** Studies have shown that every dollar of tax benefit stimulates as much as an additional dollar of private R&D spending in the short run and two dollars in the long run. Every \$1 of R & D adds about \$2 of benefit to our economy and society as a whole.

What Outside Voices Say about the R&E Credit

- Chamber of Commerce: “The R&D tax credit creates high-wage, American jobs....Extension and expansion of the R&D tax credit will encourage investment in R&D in the United States that will enhance high-wage job growth and contribute to the revitalization of the American economy.” ([Chamber website](#))
- Rob Atkinson, President of the Information Technology and Innovation Foundation: “If the United States is to remain the world’s preeminent location for technological innovation (and the high paying jobs that result), Congress will need to significantly expand and reform the Research and Experimentation Tax Credit.” ([Foundation papers](#))
- Kevin Hassett, American Enterprise Institute: The R&E credit is “one of the most successful government tax provisions on the books....If the credit were to become permanent, then the benefits could well be higher, since the uncertainty surrounding its renewal would be removed.” ([testimony](#))
- Douglas Holtz-Eakin (when John McCain’s top economic adviser): “Give companies a permanent R&D credit because we know if the R&D is done here, the manufacturing is more likely to be done here, according to the research literature.” ([US News and World Report](#))