

AMERICA NEEDS A PERMANENT R&D TAX Credit

Tax Credits for Private-Sector Research Investments Create Technological Innovation and High-Wage Jobs

The R&D tax credit is an effective tool for boosting innovation and competitiveness and creating high-wage employment.

Studies show that R&D tax credits not only spur more research, they influence the location of research facilities and attract more investment in those facilities. Research facilities in turn are an anchor for high-tech business investment. Locating manufacturing plants close to research facilities is a key competitive advantage in high-tech product development because it enables more rapid product innovation.

But the U.S. R&D Tax Credit Has Been Among the Developed World's Weakest. It Is Currently Expired.

While other countries around the world have significantly increased tax incentives for private-sector research investments, the United States has recently provided the weakest incentives of any developed country.

- In the late 1980s, America provided the most robust R&D tax credit among developed nations, but, by 2004, the United States had fallen to 17th place.
- Congress has temporarily extended the credit 11 times since 1981 and has allowed it to expire four times.
- The credit is currently expired, discouraging American business from making the research investments that would boost U.S. innovation capacity and create more high-wage jobs.
- The stop-and-start approach to R&D tax credit policy makes the credit far less effective than it could be as an incentive for greater private-sector research investment.
- R&D stimulated by the tax credit is an important anchor for high-wage jobs, as high-tech manufacturing is often located near R&D facilities to speed innovation. The semiconductor industry employs 180,000 people in the United States.
- The Administration's FY 2011 budget includes a permanent R&D tax credit effective January 1, 2009, the date the prior credit expired.

SIA Calls Upon Congress to Bolster U.S. Innovation Through the R&D Tax Credit

Congress must:

- Pass a seamless, strengthened and permanent U.S. R&D tax credit this year.

KEY FACTS

- Most European and Asian nations, as well as Canada and Mexico, offer far more generous tax treatment for private-sector research than does the United States.
- Corporate R&D managers say that cost is an important factor in moving research offshore. A more robust R&D tax credit would lower the cost of research, making the United States a more desirable location for R&D investment.

"And that's why my budget makes the research and experimentation tax credit permanent. This is a tax credit that returns two dollars to the economy for every dollar we spend, by helping companies afford the often high costs of developing new ideas, new technologies, and new products. Yet at times we've allowed it to lapse or only renewed it year to year. I've heard this time and again from entrepreneurs across this country: By making this credit permanent we make it possible for businesses to plan the kinds of projects that create jobs and economic growth."

President Obama

April 27, 2009

Speech at the National Academies of Sciences