October 15, 2009

STATEMENT OF

THE R&D CREDIT COALITION

TO THE

PRESIDENT'S ECONOMIC RECOVERY ADVISORY BOARD
TAX REFORM SUBCOMMITTEE

The R&D Credit Coalition[1] appreciates the opportunity to submit the following statement to the President's Economic Recovery Advisory Board's (PERAB) Tax Reform Subcommittee. We respectfully request that the subcommittee recommend to President Obama that the research tax credit be both strengthened and permanently extended.

Like President Obama, whose FY 2010 Budget calls for a permanent extension of the credit, we believe the R&D tax credit is a vital tool for ensuring the continued vitality of the American economy. The President recently stated: "When we fail to invest in research, we fail to invest in the future." We could not agree more.

Innovation Vital to U.S. Economy

Since its enactment in 1981, the R&D tax credit has been critical in funding private-sector technological breakthroughs. The credit encourages innovation, helps maintain and create quality jobs in the United States, and is an important tool for many businesses engaged in cutting-edge research projects.

[1] The R&D Credit Coalition is a group of more than 100 trade and professional associations along with small, medium and large companies that collectively represent millions of American workers engaged in U.S.-based research throughout major sectors of the U.S. economy, including aerospace, agriculture, biotechnology, chemicals, electronics, energy, information technology, manufacturing, medical technology, pharmaceuticals, software and telecommunications.

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Economists do not agree on many things but they do agree that, in the long run, productivity growth is a principal source of improvements in modern living standards. The consensus among economists is that productivity growth in recent years has been driven by the combination of accelerated technical progress and the resulting investments in capital assets, research and development, human capital, and public infrastructure.

Both public and private investment in research is needed to foster the level of innovation necessary to keep the United States economically competitive. Private-sector R&D funding generally falls below the optimal level of spending necessary to provide maximum benefits to the overall economy. Corporate research is high-risk, long-term and limited by the "free rider" problem in economics. The benefits of R&D will not fully accrue to those businesses conducting the research, so there must be an additional incentive for businesses to undertake the costly and uncertain investment in additional research that benefits the public good. Thus, it makes public policy sense for the U.S. government to do all it can to encourage companies to further increase R&D spending in the United States.

Foreign Tax Incentives for Research Increasingly Attractive

Increasingly, foreign governments recognize the value and importance of R&D investments and the high-quality jobs that flow from that investment. Governments around the world are competing for corporate R&D investment to help create a better economic future for their citizens.

In an increasingly competitive global environment – with foreign governments actively recruiting American companies to base research operations abroad – the credit helps make the U. S. a more attractive location to base R&D.

The lack of a strong, permanent U.S. research credit means that an increasing share of this research may be performed outside the U.S. in foreign labs and research facilities.

A Strengthened and Permanent Research Credit

In order to maximize its incentive effect, the R&D credit should be strengthened and made permanent. We believe that the correct approach is represented by bipartisan, and widely supported, legislation introduced in both the Senate and House by Senators Max Baucus and Orrin Hatch (S. 1203) and Representatives Kendrick Meek and Kevin Brady (H.R. 422).

While President Obama's FY 2010 Budget does call for the credit to be made permanent, it does not specify increases in the Alternative Simplified Credit (ASC) rate from 14% to 20% as called for in H.R. 422 and S. 1203. We respectfully request that the subcommittee make a recommendation to strengthen the credit along the lines of these bipartisan pieces of legislation. Strengthening the credit in this fashion will help make the U.S. research credit more competitive with international tax incentives for research and will lead to an increased number of U.S. based research projects.

In addition, the research credit, currently scheduled to expire on December 31 of this year, should be made permanent. Research projects have long horizons and extended gestation periods. There is little doubt that some of the incentive effect of the credit has been lost as a result of the constant uncertainty over the continued availability of the credit and occasional lapses. This must be corrected so that the full potential of its incentive effect can be felt across all sectors of our economy.

Conclusion

Private sector R&D in the U.S. stimulates investment in innovative products and processes that greatly contribute to overall economic growth, increased productivity, new and better U.S. jobs, and higher standards of living in the U. S. By creating an environment favorable to private sector R&D investment in the U.S., Congress can encourage companies to site new research projects here and maintain and attract the high-skill, high-wage jobs associated with those projects in the U.S. Investment in R&D is an investment in U.S. jobs. A strong, vibrant, and permanent R&D credit is essential for the competitiveness of U.S. companies, as many foreign countries have chosen to offer direct financial subsidies and reduced capital cost incentives to "key" industries.

The R&D Credit Coalition appreciates the opportunity to share these comments with the President's Economic Recovery Advisory Board Tax Reform Subcommittee. We look forward to working with you to ensure that our nation's tax laws foster economic growth and support the innovation necessary to power the economy for the demands of the 21st century. We would welcome the opportunity to speak with the subcommittee further on the need to permanently strengthen the R&D tax credit.