



POSITION STATEMENT

Expand the Small Business U.S. R&D Tax Credit

*Adopted by the IEEE-USA
Board of Directors (25 June 2021)*

IEEE-USA supports expansion of the Research and Experimentation Tax Credit (also known as the R&D Tax Credit).

Research and development is a vital component of this country's economic engine and is key to U.S. global leadership in science and technology. Similarly, the tax credit is an essential incentive for companies to help mitigate the risk of investing in research that may not be realized in profitable products for many years to come, but will ultimately make the United States more competitive in emerging global markets. By providing an incentive for expanding private-sector investments in technology, the R&D Tax Credit improves productivity and encourages technological innovations that help sustain U.S. competitiveness, create jobs, and ensure our national security.

The increased global competition in science and technology has led many countries to provide tax incentives to stimulate research and development. In the United States, the *Tax Cut and Jobs Act of 2017* reduced the corporate tax rate from 35 percent to 21 percent, while the R&D Tax Credit remains the same. Since first enacted in 1981, the R&D Tax Credit was extended every year until it was made permanent as part of the *Protecting Americans from Tax Hikes (PATH) Act of 2015*. However, the R&D Tax Credit has failed to keep up with the high cost of research and inflation.

To provide an effective incentive to the private sector, it is critical that the government improve and expand the R&D Tax Credit to stimulate greater R&D investment. Because almost 70 percent of R&D Tax Credit dollars claimed is for the salaries of research employees, the credit benefits technologists and scientists directly by fostering high-skilled, high-wage jobs in the United States. At a time when U.S. companies are increasingly looking to develop products for foreign markets offshore, the R&D Tax Credit encourages companies to keep a greater portion of R&D, and the related jobs, in the United States.

The IEEE-USA recommends that Congress expand the U.S. R&D Tax Credit in the following ways:

- Expand the number of firms eligible for a refund of their payroll taxes by raising the maximum amount of gross receipts from the current \$5 million per year to greater than \$10 million
- Increase the maximum amount of payroll tax that can be refunded from the current \$250,000 to greater than \$500,000 -- and annually index the limit for inflation going forward
- Increase the Alternative Simplified Credit rate from the current 14 percent to 20 percent, to further stimulate research investment
- Provide small businesses with other forms of tax relief, including carry-forward tax credits, to encourage research investments

BACKGROUND

The Research and Experimentation Tax Credit (Internal Revenue Code, Section 41) was created in 1981 and Congress has extended it every year since enactment. The R&D Tax Credit was made permanent in 2015 as part of the *Protecting Americans from Tax Hikes (PATH) Act*. As originally enacted, the credit was equal to 25 percent of a company's incremental "qualified R&D expenditures" (QREs), in excess of a base equal to the average qualified expenditures for the previous three years. QREs generally include salaries, wages, supplies, and 65 percent of the total amount paid for contract research. Basic research payments to universities and certain other research organizations are also treated as QREs. Expenditures that do not qualify include property, plant and equipment costs, and depreciation on R&D capital goods. While not well-defined under Section 41, qualified research must be technological in nature and relate to the development of new or improved business components. Generally, roughly 50 percent of industry R&D expenditures are determined to be QREs.

Throughout the 1980s and until 1991, the United States was ranked number one in R&D tax generosity, among the 30 OECD nations. However, in science and technology competition other countries have substantially increased their tax incentives. By 2009, the United States had fallen to 24th place in R&D tax incentives among 38 industrialized countries. In 2017, the *Tax Cut and Jobs Act of 2017* reduced the corporate tax rate from the historical 35 percent, down to a low of 21 percent, putting the United States in ninth place¹.

In the past decade, research has become more multidisciplinary, requiring teams of researchers from many science and technology disciplines. Small technology research firms have become larger in size, well as in gross receipts and payroll taxes. To maintain and expand the number of firms qualified for the tax credit, it is necessary to increase the maximum amount of receipts, for example, from \$5 million to \$10 million. Furthermore, due to the increased cost of doing research, it is necessary to increase the maximum amount of payroll tax that can be refunded, for example, from \$250,000 to \$500,000. The tax credit should also be indexed to inflation.

A second method of R&D tax calculation was enacted in 2006, known as the Alternative Simplified Credit (ASC) method. The ASC method attempts to address some concerns. Taxpayers may instead elect the ASC method, which equals 14% of QRE that exceed a base amount (defined as 50% of the average QRE for the three preceding taxable years). The ASC rate may be reduced to 6% if a taxpayer has no QRE in any of the three preceding taxable years. Many international R&D tax credit incentives are significantly greater than the United States. Enacting an increase of the ASC rate, from the current 14 percent to 20 percent, will facilitate the innovations necessary to compete in the global economy – as well as increase the number of R&D manufacturing-related jobs in the United States.

Several studies have shown that the R&D Tax Credit stimulates additional research in excess of federal tax revenues forgone; and that the tax credit has been beneficial to companies of all sizes, and across all sectors². Industries that particularly benefit include electrical and electronic equipment, communications, chemicals and allied products, biotechnology, machinery, motor vehicles and equipment, instruments and related products, and business services.³

Because of its importance to American industry, the R&D Credit Coalition has been formed. It is composed of “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.” The Coalition’s web page ([http://www.investinamericas future.org/](http://www.investinamericasfuture.org/)) is an excellent source for information on the R&D Tax Credit, its need and significance to the American way of life, and especially, its importance to U.S. economy.

This statement was developed by IEEE-USA’s Research and Development Policy Committee (R&DPC) and represents the considered judgment of a group of U.S. IEEE members with expertise in the subject field. IEEE-USA advances the public good and promotes the careers and public policy interests of more than 150,000 engineers, scientists and allied professionals who are U.S. members of IEEE. The positions taken by IEEE-USA do not necessarily reflect the views of IEEE, or its other organizational units.

ENDNOTES

¹ OECD R&D Tax Incentive Database, Time Series Estimates of Government Relief for Business R&D, 18 December 2019.

² J. Kennedy and R. Atkinson, Why Expanding the R&D Tax Credit is Key to Successful Corporate Tax Reform, ITIF, July 2017.

³ CRS Report, Research Tax Credit: Current Law, Legislation in the 113th Congress, and Policy Issues, Gary Guenther, February 1, 2013.