



POSITION STATEMENT

Permanent Extension of the R&D Tax Credit

*Adopted by the IEEE-USA
Board of Directors, 25 June 2010*

IEEE-USA supports permanent extension of the Research and Experimentation Tax Credit (also known as the R&D Tax Credit) and recommends that the credit be increased to a level comparable with other Organization for Economic Co-operation and Development (OECD) nations.

Research and development is a vital component of this country's economic engine, and a 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 the emerging global market. 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 increasingly competitive nature of the emerging global economy mandates that the United States take proactive measures, such as a permanent R&D tax credit, to ensure a strong domestic science and technology research and development base. In that competitive global environment, other nations utilize tax incentives to encourage business R&D spending.

To provide an effective incentive to the private sector for expanding R&D investments, it is critical that the R&D tax credit be made permanent, so that it can be factored into business planning on a consistent and predictable basis. The current R&D tax credit has been extended almost yearly, since first enacted in 1981. But the uncertainty created by these short-term extensions discourages companies from investing in critical, long-term, high-risk research projects that have historically shown tremendous payoffs in economic growth, productivity gains and jobs. This credit returns two dollars to the economy for every dollar of the credit.¹

Throughout the 1980s, and until 1991, the United States was ranked number one in R&D tax generosity among the 30 OECD nations. However, by 1996, the United States had fallen to seventh among OECD nations. By 2004, the U.S. had fallen to 17th, despite expansion of the credit by Congress. In 2008, the United States continued to be ranked 17th overall (and 19th for R&D tax generosity towards small businesses) amongst OECD nations.²

This statement was developed by the IEEE-USA Research & Development Policy Committee 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 210,000 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.

BACKGROUND

The Research and Experimentation Tax Credit (Internal Revenue Code, Section 41) was created in 1981, and Congress has extended it almost yearly since enactment. 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. By limiting the credit to incremental increases in R&D expenditures, Congress sought to provide an incentive for increased R&D expenditures, rather than a subsidy for expenditures that might have taken place in the absence of the credit.³

QREs generally include salaries and 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 also relate to the development of new or improved business components. Generally, roughly 50 percent of industry R&D expenditures are determined to be QREs.

Because almost 70 percent of R&D tax credit dollars claimed is for the salaries of research employees, the credit benefits engineers 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.

A number of 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 sectors. 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.

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.” Its [web page](#) 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 economy.

¹ Remarks by the President to the National Academy of Sciences Annual Meeting, April 27, 2009

² Creating Jobs by Expanding the R&D Tax Credit, Robert D. Atkinson, January 26, 2010

³ The Research and Experimentation Tax Credit: A Critical Policy Tool for Boosting Research and Enhancing U.S. Economic Competitiveness, Robert D. Atkinson, September 4, 2006.