

THE
NEW ENGLAND
COUNCIL

July 29, 2008

Dear Member of Congress,

As you know, the Research and Experimentation (also known as Research and Development) tax credit expired at the end of 2007. Reviving the R&D credit is critical to the future of New England's economy. An Ernst & Young study released in April illustrates this point, showing that New England benefits from the tax credit like few other regions. As a Council, we acknowledge the political and budgetary realities of the wide-ranging bill (S. 3335) containing an R&D extension that the Senate may debate this week. Regardless, the New England Council is urging members of the New England Senate delegation to support a seamless extension of the Research and Experimentation credit before Congress adjourns for the year.

The Ernst & Young study does an excellent job detailing the widespread importance of the R&D credit to our region. In 2005, nearly 4,300 New England businesses reported a form of research and development activity, with over 2,400 of those in Massachusetts. Four New England states (MA, CT, RI, and NH) are above the national average in R&D activity as a share of their gross state product – all four states in the top ten nationally. The study shows that businesses of all sizes take advantage of the credit -- 29% of the firms claiming the R&D credit had \$1 million or less in assets, 21% had \$25 million or more, with the remaining 50% falling somewhere in between. In total, over 17,700 businesses claimed \$6.6 billion in 2005. And scientific and technical services, as well as the information sector (lynchpins of the New England economy), represent a significant percentage of those nearly 18,000 companies.

At least 35 states, including each New England state, also provide R & D credits, suggesting the credit's effectiveness at generating research expenditure and lending a broader urgency to its extension. Any state credit tied to the Internal Revenue Code in effect for the taxable year (providing a state tax credit for research expenses incurred which would qualify for the Federal R&D tax credit, for example) may be inapplicable until the federal credit is revived.

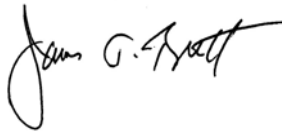
We acknowledge that the expired R&D tax credit probably isn't at the forefront of conversation around most American dinner tables. In difficult economic times, millions of us are working harder and longer thanks to high gas prices and other energy costs. Almost all Americans struggle to squeeze every ounce out of their paychecks.

However, a commitment to research and development is an investment in the future of our country for our children – and their children as well. For example, New England researchers are finding ways to use fossil fuels in a cleaner manner, deliver them more efficiently, and develop the next generation of alternative and renewable sources of fuel. Cleaner-burning, hybrid, and fuel-cell cars are being developed to benefit our environment, as well as stretch the monthly budgets of those combating gas prices at \$4 a gallon gas prices.

Research and development practices inherently involve a certain degree of the unknown. Experimentation by its nature is undertaken without a firm understanding of the result, which is very much the environment in which a great deal of research and development takes place. Extending the research and development tax credit gives companies a safety net, ensuring that regardless of the end result, the federal government recognizes the importance of the research. The R&D tax credit is an investment in the future of our nation and the quality of our day-to-day lives.

New England can and will lead the nation in technological breakthroughs that will change the way generations of Americans live their lives. A seamless extension of the expired research and development tax credit is an investment in those breakthroughs, and should be reinstated and extended before Congress adjourns so this critical research does not move overseas or is shut down altogether. If you have any questions, please do not hesitate to call me or Jeff Turcotte of the Council's Washington, DC office at (202) 547-0048.

Very Truly Yours,

A handwritten signature in black ink, appearing to read "James T. Brett". The signature is fluid and cursive, with a large initial "J" and a long horizontal stroke extending to the right.

James T. Brett
President & CEO