

THE NEW ENGLAND COUNCIL

Contact: The New England Council
617-723-4009, ext. 27

This piece appeared in:



January 2010

Congress must extend the R&D tax credit for jobs and economic growth

By James T. Brett By James T. Brett
President and CEO, The New England Council

Economic growth hinges on the ability to continuously innovate and dexterously adapt to the ever-changing world. According to data from the Bureau of Economic Analysis and the National Science Foundation, research and development comprised 5 percent of the nation's real GDP growth from 1959 to 2004 and 7 percent between 1995 and 2004.

The current recession has unfortunately dried up much of this spending. American R&D has declined by approximately 2.4 percent since December 2007, according to *R&D Magazine*, threatening long-term economic growth when it is most needed. Data shows increases in R&D are consistently followed by increases in GDP and the loss in investment will only exacerbate the nation's financial woes.

Research and development's economic benefits were acknowledged last year when \$18.4 billion of the American Recovery and Reinvestment Act was allocated to R&D spending. In addition, more than two-thirds of states offer their own R&D credit.

Research and development is the catalyst for tomorrow's new products and necessary for a vibrant economy. Funding R&D leads to investments in capital equipment and has a positive spillover effect into numerous sectors. It also contributes to advancements in areas such as medicine and energy that will make the world safer and cleaner in our lifetime and those of future generations.

Another type of economic stimulus, the federal research and development tax credit, has promoted innovation since 1981. Recently, the House passed a one-year, \$7 billion extension of the credit, which expired on Dec. 31. The New England Council now urges the Senate to pass its version of the bill, early in the new year, to ensure this invaluable incentive remains available for businesses on the cutting edge.

In effect, the R&D credit means jobs. A 2008 Ernst & Young study estimates 70 percent of the tax credit's benefits are used to pay salaries. The trade association TechAmerica says approximately \$16 billion will be generated through the credit in 2010, as well as \$13 billion in federal tax revenue. Without an extension of the credit, however, 120,000 jobs could be lost nationwide. We cannot afford to add these workers to an unemployment rate already in the double digits.

The prosperity of New England's economy is especially indebted to research and development. Critical sectors in the region such as biological sciences and information and medical technology rely on continuous advancement and innovation. The Ernst & Young study identifies some 4,300 New England businesses with R&D components in 2005 out of 17,700 across the country. Four states – Massachusetts, Connecticut, Rhode Island and New Hampshire – rank in the top 10 nationally for R&D as a share of their gross state product. And the data is spread out among businesses of all sizes: 29 percent of firms nationwide claiming the R&D credit had \$1 million or less in assets, 21 percent had \$25 million or more, and the remaining 50 percent are somewhere in between.

The bare minimum Congress should do to encourage R&D is to extend the tax credit. Global competitors such as Canada and China have already surpassed the United States in terms of R&D incentives. The fruits of R&D spending are critical for competitiveness in today's world economy.

Looking forward, Congress must consider making the R&D credit permanent as President Obama has, himself, promoted in his Fiscal Year 2010 budget outline. When businesses are confident the credit will be available to them in the long term, they will be more likely to budget for and invest in multiyear projects that will have an even greater impact on employment and innovation.

While we recognize the Senate has a great deal in its legislative queue to begin 2010, the R&D credit must remain an agenda priority. And since the credit has technically expired, any revitalization of the credit must include provisions for retroactively applying the credit to avoid any gaps. The greater the delay, the more businesses will slow down their R&D efforts.

New England and the rest of the nation cannot afford to fall behind in the economy of the future, especially as we pull ourselves out of the worst financial crisis since the Great Depression. Extending the research and development tax credit is imperative to securing and creating jobs, fostering technological breakthroughs and guaranteeing prosperity.

###