NACD KEY ISSUE: RESEARCH & DEVELOPMENT TAX CREDIT

NACD ISSUE

Extension of the Research & Development (R&D) tax credit, which expired on December 31, 2007.

BACKGROUND

Congress enacted the R&D tax credit in 1981 in order to stimulate research and development spending by all sizes of business in the United States with the objective of helping companies to bring new and improved products and services to the market. The credit is only available for R&D done in the U.S. and applies only to the portion of a business's eligible expenses, called qualified research expenditures, that exceed a calculated base amount of R&D spending. R&D activities must be technological, involve a process of experimentation, and be directed at developing a new or improved business component.

Congress has always approved the R&D tax credit on a temporary basis only. Since it was first established in 1981, Congress has extended it 12 times, with extension times ranging from as long as five years to only six months. On several occasions, the credit has been allowed to expire and has been extended retroactively. This situation leads to uncertainty and difficulties for businesses in their planning activities.

The last iteration of the R&D tax credit expired on December 31, 2007, and several bills have been introduced to permanently extend it.

LEGISLATIVE UPDATE

In the Senate, Finance Committee Chairman Max Baucus (D-MT) and Senator Orrin Hatch (R-UT) have each introduced legislation to permanently extend the R&D tax credit, S. 41 and S. 2209, respectively. Both of these bills are pending in the Senate Finance Committee.

In the House, Representatives Eddie Bernice Johnson (D-TX) and Sander Levin (D-MI) have also introduced legislation to permanently extend the credit, H.R. 1712 and H.R. 2138, respectively. These bills are pending in the House Ways & Means Committee.

NACD POSITION

NACD supports a permanent extension of the R&D tax credit. While the credit has been beneficial and has encouraged some new research and development to date, making it permanent would encourage more businesses to invest in new technologies and processes over the long term because they would be able to count on and plan for the credit. In a time of economic downturn in the U.S. and increased global competition, it is more important than ever for businesses to make investments to improve and enhance their products. A financial incentive such as a permanent R&D tax credit is the kind of economic stimulus needed for long-term benefit. NACD urges Congress to enact legislation to permanently extent the R&D tax credit as soon as possible.