



# WAYS AND MEANS

REPUBLICANS | KEVIN BRADY, REPUBLICAN LEADER

## AGENDA FOR A HEALTHY ECONOMY

### Pushing Research & Development into Hyperdrive by Doubling the R&D Tax Credit

*Rep. Jackie Walorski (R-IN)*

Since the 1980s, the United States has lost its position as having some of the most competitive R&D tax incentives among OECD nations. Many countries aggressively attracted R&D through not only low domestic tax rates, but also through direct grants, super-deductions, and special reduced tax rates for innovation. Innovation-led economic development was a part of their economic strategy. With the United States in the back of the pack of OECD nations and by some estimates ranking 26<sup>th</sup> among OECD nations, we should make it part of ours.

#### **Double the R&D Tax Credit**

The current R&D credit has 3 major options for companies and an additional option for smaller, younger companies. This proposal doubles each of them.

#### **Encourage Established Firms to Get More Aggressive in R&D:**

- **A 40 Percent “Traditional” Credit:** Double the existing traditional credit rate of 20 percent to 40 percent of the increase in R&D spending for more established companies, which uses a complicated formula to determine the increase in spending.
- **A 28 Percent Alternative Simplified Credit (ASC):** Double the existing ASC rate of 14 percent to 28 percent of the increase in R&D spending, which uses a simpler formula to determine the increase in spending.

#### **Strengthen the Power of Expanding Firms and Start-Ups to Innovate:**

- **A 14 Percent Credit for Firms with Little Research History:** Raise the credit of 6 percent of the R&D spending to a credit of 14 percent of the spending if the company has no history of U.S. research in the past 3 years (but for a prior drafting error this credit would have been 7 percent).
- **Double the Startup Limit to \$500,000:** Companies with a relatively small amount of income in the past five years can choose to take one of the above credits as a credit against their Social Security payroll taxes, but the amount they may claim is limited to \$250,000.