



June 29, 2001

G. Smith - Hatch Amendment to S. 1052

**Pass Permanent Extension of the
R&D Tax Credit**

Research and development is a cornerstone of technological and scientific innovation. The research and development (R&D) tax credit encourages investment that leads to the development of products that improve human health and spur technological advances. These developments bolster the United States' position as the science and high-tech leader of the world.

As such, the United States Senate should go on record in support of a permanent extension of the R&D tax credit. Senators Gordon Smith (R-OR) and Hatch (R-UT) have an amendment to do just that. It may be offered on the Senate floor today.

- **Permanent extension is overdue.** This credit was originally enacted in 1981 and has been extended temporarily 10 times. Because the credit is not permanent, it offers science and technology businesses and entrepreneurs less value than it should: the unpredictability of the credit has forced businesses to allocate significantly less to research than they otherwise would if they knew the tax credit would be available in future years. This uncertainty undermines the entire purpose of the credit. Some studies conclude that the credit may be responsible for somewhere up to 13 percent of R&D spending. Likely, that number would be substantially greater with greater certainty for industry.
- **The tax credit is cost-effective.** Recent studies suggest that one dollar of the credit's revenue cost leads to a one-dollar increase in business R&D spending.
- **Investment in R&D spurs innovation and economic growth.** Information technology was responsible for more than one-third of real economic growth in 1995-1998. Information technology industries account for more than \$500 billion of the annual U.S. economy.
- **The tax credit raises wages.** Findings from a study conducted by Coopers & Lybrand show that workers in every state will benefit from higher wages if the research credit is made permanent. Payroll increases as a result of gains in productivity stemming from the credit are

estimated to exceed \$60 billion over the next 12 years.

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The Smith-Hatch amendment provides for permanent R& D by moving to commit S. 1052 to the Finance Committee with instructions. This assures the Finance Committee is allowed appropriate consideration of a tax measure, and also provides the means to resolve the House “blue slip” issue (Constitution provides revenue bills originate in the House). The Finance Committee is instructed to report a House-passed bill (H.R. 3) to the Senate “forthwith” that:

5. Strikes all after the enacting clause and inserts the text of S. 1052, as amended;
6. Makes the research and development tax credit permanent and increases the rates of the alternative incremental research and development tax credit as provided in S. 41 (Senator Hatch’s bill);
7. Provides that H.R. 3, as amended pursuant to paragraphs (1) and (2), does not negatively impact Social Security trust funds or result in an on-budget surplus that is less than the Medicare surplus account, and
8. Provides that H.R. 3, as so amended, is not subject to a budget point of order.

This amendment is not intended to slow down or in any way impact the contents of S. 1052, other than to add the tax credit to the bill language. The issue is simply this: the Senate should speak with a strong voice on the issue of the R&D tax credit.