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Allard-Hatch Amendment Also Will Raise Wages

Senate Soon to Consider Permanent Extension of the R&D Tax Credit

The Senate should go on record in support of a pro-growth stimulus package to revive the struggling economy, and particularly the high tech sector. Next week the Senate may vote on an amendment by Senators Allard (R-CO) and Hatch (R-UT) to provide a permanent extension of the so-called R&D tax credit, and its passage is one important way to provide that needed stimulus.

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.

Permanent R&D is Stimulative

- **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. Studies conclude that the R&D credit may be responsible for 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 also suggest that one dollar of the credit's revenue cost leads to a one-dollar increase in business R&D spending.
- **Permanent extension is overdue.** The R&D credit was originally enacted in 1981 and has been extended temporarily 10 times.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 and is particularly problematic during periods of economic instability.

- **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.

High Tech Needs Permanent R&D

The magnitude of the economic slowdown was just beginning to be acknowledged last summer; unemployment was up, productivity was down. After September 11 an additional one-quarter million Americans lost their jobs, one-fifth of whom worked in high tech:

- Revenue for U.S. technology sales – including computers, semiconductors, and communications equipment – has fallen 35 percent from the beginning of 2001.
- Since 2001, 474,199 jobs in the high tech industry have been eliminated. Sector breakdown of eliminated jobs:

Telecommunications – 225,231

Computers – 131,658

Electronics – 117,310

- More than 47,250 jobs from the telecommunications, computer, and electronics industries were eliminated in September, 2001 alone.

Now is the Time for the Allard-Hatch Amendment

Given the current economic downturn, the Senate should finally make permanent a tax credit that would spur more American investment and more American jobs, both of which can lead to the development of new, more cost-effective, and more efficient technology products. The current treatment of the R&D tax credit – allowing it to run to the brink of expiration and reviving it at the 11th hour – is a disservice to the nation's research entities and the U.S. economy as a whole. As business leaders plan their projects, they need to know whether or not they can count on this tax credit.