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Contact: Communications Office
(202) 224-4515

Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Tax Reform and Incentives for Innovation
As prepared for delivery

Apple co-founder Steve Jobs once said, "Innovation distinguishes between a leader and a follower."

Thirty years ago, on the heels of the 1982 recession, a divided Congress passed the first federal research and development tax credit to help stimulate economic growth.

The United States became the world's leader in funding research. This ushered in years of innovation and investment in groundbreaking research. Since then, U.S. companies have changed the world with revolutionary inventions. These include the microprocessor, the mobile phone, solar panels, office software, personal computers and social networking.

The U.S. still leads the world in international patent filings, but we risk losing that title. While our international patent applications fell slightly from 2006 to 2010, China's tripled. We aren't doing enough to support our research and development sectors, and this puts our country's competitiveness at risk.

Today, out of the 21 OECD nations, the U.S. ranks 17th in tax incentives for research and development. American companies have little certainty that the main tax incentive for research and development – the R&D credit – will continue. Since 1981, we have relied on 14 short-term extensions to renew the credit. This undermines the potential of the tax credit to provide the certainty businesses need to generate meaningful growth.

Today, again in the wake of a recession, Congress must do its part to support American ingenuity. Development and innovation here at home will boost our economy, and they will help create jobs.

Economists, such as Gregory Tassef of the National Institute of Standards and Technology, argue that technology is the single most important determinant of long-term growth. Technology creates new market opportunities. This increases productivity and quality. This helps businesses create good-paying jobs and profits.

Today we discuss how we can most effectively encourage R&D to help create jobs here at home.

Clearly, the world is a much different place than it was 30 years ago, when we first created the R&D tax credit. We are not the only country thinking along these lines. Competition is now fierce as other nations try to lure scientists and investors to their shores. Now more than ever, it is crucial that we remain the leader in research and development.

To understand this issue and help businesses create jobs, we at the Finance Committee must think like inventors. In doing so, we also must structure any tax incentives to get the most bang for our buck, given our enormous fiscal challenges.

Clearly, tax credits are not the entire solution, but we can look to improve the incentives for innovation through tax reform.

Yesterday, we took a major step forward. Senator Hatch and I introduced a permanent R&D tax credit – the Grow Research Opportunities with Tax Help Act, or the GROWTH Act.

This bill would make the research and development tax credit a permanent part of the tax code. Making this tax credit permanent will provide certainty, and it will help spur economic growth for generations to come.

The bill also simplifies and enhances the tax credit, making America more competitive in the global race for jobs and investment.

I suspect we'll hear from some of our witnesses today on other ways to improve the R&D tax credit, and I want to hear those ideas.

So let us think like inventors. Let us be creative in our solutions. Let us understand what drives businesses to innovate. Let us support that innovation. And most importantly, let us lead, not follow.

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