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## **BAUCUS, GRASSLEY, HATCH REVISIT RESEARCH AND DEVELOPMENT TAX CREDIT**

*Finance Leaders Commissioned GAO Report to Determine Credit's Effectiveness in  
Boosting Economic Growth, Business Innovation*

**Washington, DC** – Senate Finance Committee Chairman Max Baucus (D-Mont.), Ranking Member Chuck Grassley (R-Iowa) and senior Finance member Orrin Hatch (R-Utah) responded today to a new report by the Government Accountability Office (GAO) recommending Congress move to restructure the research tax credit in order to maximize its effectiveness in encouraging U.S. business innovation. The provision, commonly known as the R&D credit, currently gives qualifying taxpayers a choice between two credits – a traditional credit and an alternative simplified credit – both of which provide U.S. companies a tax break for incremental qualifying research expenses, such as labor and equipment costs. The Finance leaders commissioned the study to determine whether the tax credit could be improved to increase incentives to conduct new research that will spur economic growth during the recession and beyond. They also asked for suggestions on ways to improve recordkeeping requirements and reduce compliance costs for businesses claiming the tax credit.

In its report, GAO determined the research tax credit could be improved by eliminating the traditional credit and adding a minimum base to the alternative simplified credit. Other GAO recommendations include guidance by Treasury to clarify the definition of 'qualified research expenses.' Last June, Baucus and Hatch led a bipartisan group of Senators in introducing a strong proposal to simplify the credit by allowing the traditional credit to expire and increasing the alternative simplified credit. The Senators' proposal would also make the credit permanent so businesses can plan increased research expenditures knowing they will receive the credit.

**"America operates in a global economy, and our economic vitality and long-term global competitiveness depends on business innovation to fuel new technologies, intellectual property and domestic job growth,"** Baucus said. **"The majority of these benefits go to salaries of U.S. workers performing U.S.-based research and that's good for jobs. We need to ensure this credit is being used properly with maximum effect. We will work to make the GAO's recommendations heard by Congress and the Treasury Department as the Finance Committee considers reform of the tax code in the coming months."**

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**“This report shows large corporations take advantage of the tax credit much more than small companies,” Grassley said. “Congress intended the tax credit to encourage research and development at businesses of all sizes. Encouraging innovation is meant to lead to investment and job creation. Since small businesses create 70 percent of all net new jobs, it’s eye-opening that too few of them are using this tax credit. Congress and the IRS need to do everything possible to make this credit accessible and workable for all businesses, especially the small employers who don’t have in-house tax counsels to handle the paperwork. If small businesses aren’t using it because it’s too cumbersome, or they think the IRS will fight them every step of the way, that undermines the whole reason for the credit. The IRS should offer administrative simplification and education and outreach to maximize the number of businesses using this credit toward job creation. There’s also a lesson here. Congress should make sure existing economic incentives are working before rushing to add more.”**

Hatch said, **“This report confirms what the job creating, research intensive companies in Utah and around the nation have told me – the research tax credit substantially contributes to our nation’s innovation economy but needs to be improved. Senator Baucus and I have successfully worked to improve the credit for many years, but we still have a ways to go. This year, when our nation is in such need of economic growth and job creation, the Baucus-Hatch bill, which makes the credit permanent and expands the credit, is crucial.”**

The report also found a substantial portion of the annual research credit funding goes to large corporations with annual earnings of \$1 billion or more and that the temporary credit has been extended 13 times since enactment, often retroactively. GAO notes the traditional R&D tax credit is calculated based on research spending dating back to the 1980s with significant disparities in incentives for incremental spending by recipients.

Information regarding the bipartisan Senate R&D proposal may be viewed here:

<http://finance.senate.gov/press/Gpress/2009/prg060809.pdf>.

Legislative text is available here:

<http://finance.senate.gov/press/sitepages/leg/060809%20R&D%20leg.pdf>.

View the full GAO report, “Tax Policy: The Research Tax Credit's Design and Administration Can Be Improved,” here: <http://gao.gov/>.

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