



For Immediate Release
June 8, 2009

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FINANCE SENATORS PROPOSE IMPROVEMENTS TO RESEARCH AND DEVELOPMENT TAX CREDIT

Revised legislation fosters innovation, job growth, and American competitiveness

Washington, DC – Senate Finance Committee Chairman Max Baucus (D-Mont.) and Senator Orrin Hatch (R-UT), along with Senators John Kerry (D-MA), Blanche Lincoln (D-AR), Ron Wyden (D-OR), Chuck Schumer (D-NY), Maria Cantwell (D-WA), John Ensign (R-NV), Robert Menendez (D-NJ), and John Cornyn (R-TX) today introduced legislation to improve and simplify the research and development (R&D) tax credit, legislation designed to encourage innovation of new technologies and services that will spur economic growth at home and American competitiveness abroad.

Under current law, the R&D provision is composed of two credits – a traditional credit and the alternative simplified credit – both of which provide U.S. firms a tax credit for incremental qualifying research expenses, such as labor and equipment costs. The Baucus-Hatch proposal would allow the traditional credit to expire in 2010 and increase the alternative simplified credit, which is currently set at 14 percent of qualifying expenses, to 20 percent of qualifying expenses. Companies would be given the option to claim the credit under current law in 2009 and 2010 in order to have time to adjust their accounting and effectively shift to the new, improved simplified credit.

“In this global economy, research and development by American companies is critical to our economic recovery and the long-term global competitiveness of our country,” said Baucus. **“Much of our economic vitality comes from the innovation, research, and intellectual property stemming from this tax credit. Our bill would make it easier to access the benefit, making the credit work even more effectively and continue to lead the way to new technologies, domestic job growth and, ultimately, a stronger U.S. economy.”**

“Research and development is clearly the lifeblood of not only Utah’s, but the nation’s economy,” Hatch said. **“And as we increase productivity through research and innovation, we will be in a better position to deal with our looming budgetary challenges. We need a strong and permanent research credit to encourage the kind of growth that will create these good jobs in Utah and elsewhere across the nation.”**

Since its enactment in 1981, the R&D tax credit has become a powerful and effective incentive for firms to increase research spending. If enacted, the Baucus-Hatch bill would extend the credit and provide a stronger alternative simplified credit that addresses changes in business models and economic circumstances that currently prevent some businesses from getting full benefit of the credit. The alternative simplified credit was added in 2006 for tax years beginning after December 31, 2006.

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