Testimony of The Honorable Donna F. Edwards
Ways and Means Subcommittee on Select Revenue Measures Hearing on "Certain Expiring Tax Provisions"

Chairman Tiberi and Ranking Member Neal, thank you for the opportunity to provide testimony for the record of the April 26, 2012, Ways and Means Subcommittee on Select Revenue Measures hearing to examine "certain expiring tax provisions." As the Select Revenue Measures Subcommittee considers proposals related to the extension, modification, or termination of tax extenders, I urge you to consider proposals that will spur innovation and promote job creation. One such program is the permanent extension of the research and development (R&D) tax credit.

The R&D tax credit is vital to our nation's economic growth and long-term stability. The Congressional Research Service (CRS) notes that "technological innovation is a major driving force behind long-term economic growth, and R&D serves as the lifeblood of this innovation." It is critical that the federal government play an integral role in incentivizing companies to pursue R&D domestically, increase their productivity growth, and sustain a level of economic performance critical to growing our economy.

The R&D tax credit was first enacted in mid-1981 and since that time, has been extended 14 times and significantly modified five times. During the 111th Congress, the American Recovery and Reinvestment Act (P.L.111-5) extended the tax credit and, when it expired in 2009, President Obama expressed support for a permanent extension of the credit. The Tax Relief, Unemployment Compensation Reauthorization, and Job Creation Act (P.L. 111-340) extended the credit through December 31, 2011. I am part of a growing coalition of Members of Congress, outside groups, and members of the business community who are working toward a permanent extension that would provide incentives for U.S. businesses to maintain and increase R&D jobs here in the U.S.

While many high-technology companies developed innovative technologies that can help the United States maintain its leadership in the 21st century global economy, manufacturers are moving production of these high-value products outside of the country. In order to sustain growth here at home, we must incentivize domestic manufacturing of these innovations to create good-paying, American jobs across all skill levels.

The permanent R&D tax credit will benefit many small, medium and large companies that collectively employ millions of American workers engaged in research based in the U.S. These businesses cover major sectors of our economy including aerospace, biotechnology, chemicals, electronics, energy, information technology, manufacturing, medical and health technologies, pharmaceuticals, software, and telecommunications. Such companies collectively spend billions of dollars annually on R&D, and these dollars provide for many high-wage and high-skill employment opportunities. These businesses are left to decide whether they will spend those dollars here in the U.S. or abroad. For many, the decision on where to create these R&D jobs comes down to a choice between either the temporary U.S. R&D tax credit, or the more attractive and often permanent research incentives abroad. A permanent U.S. R&D tax credit is therefore a job creating proposition for the U.S. economy in a time when we desperately need to continue our climb to economic recovery and stability.

Such a proposal has received significant bipartisan support across this nation in the past. In a national poll conducted by the Alliance for American Manufacturing, 94% of Americans, including 95% of Republicans, 93% of Tea Party supporters, and 96% of Democrats, support providing a tax credit to companies that conduct R&D in the country and make their products here as well. President Obama proposed a permanent extension in his budget request for Fiscal Year 2013, and a number of my colleagues have introduced measures to extend or modify the R&D tax credit during the 112th Congress. All these proposals indicate that support for a permanent extension and enhancement of the credit is robust.

To that end, I introduced H.R. 689, the 21st Century Investment Act, during the 112th Congress. This legislation will support and extend the R&D tax credit, and link it to an incentive for domestic manufacturing. This legislation would extend the R&D tax credit permanently; raise the rate of the regular credit from 20 to 25 percent for contract research performed within the United States; and increase for ten years the domestic manufacturing tax credit from 9 to 15 percent. I urge you to consider a permanent extension of this proposal to both spur innovation and promote the economic growth necessary for our nation's continued prosperity.

According to the Information Technology and Innovation Foundation, the United States was the pioneer behind the R&D tax credit in the 1980s, spurring economic gains and the adoption of similar credits in countries around the world. Since then, many nations surpassed the United States with far more generous tax incentives for research. In fact, according to the Organization for Economic Co-operation and Development (OECD), by 2009, the U.S. had fallen to 24th among 38 industrialized countries offering R&D tax incentives behind countries like India, Brazil, China, Korea, Singapore, and Canada. As a result of our policies, the U.S. share of global R&D will continue to fall.

I urge the committee to give serious consideration to the proposal outlined above as a means by which to restore the United States at the helm of research, development, and manufacturing in the 21st century. The social returns on R&D investments will enrich the country significantly and help improve our nation's economic outlook and future viability.