HB 2752

Expansion of R&D Tax Credit and Making it Refundable

House Committee on Higher Education, Innovation & Workforce Development**,** Jody Wiser 2.13.2015

If you vote for HB 2752, you will be pitting a massive increase in the cost of the R&D tax expenditure against the Public University Venture Development Fund (also being discussed in this committee today) and against the sunsetting tax credits for health, (rural medical, disabled, veterans' home), working families (child care, Individual Development Accts, child and dependent care, employer provided dependent care and long term care insurance) and NMTC which are all competing for $14 million. Just extending the sunsetting tax credits will cost $66 million – the missing $52 million will need to be found somewhere else – for instance by ending Gain Share, or in tax increases. It is your charge to value the tax credits before your committee in light of the options. I want to remind you of the landscape.

R&D is as essential to companies who do it as is electricity and manpower. That's why its expenses are fully deductible from income. Let me say that again, there is already and always a tax deduction for these expenses, without a tax credit. Doubling the R&D tax credit will make it an expense of families rather than the businesses – either by loss of the tax credits for families that are sunsetting, or by increases in their income taxes to pay for it when the Tax Credits Committee does its work.

Is that what you want to do? The proposed increase from $1 to $2 million will only be used by businesses big enough to be spending huge amounts of money on R&D. Before you consider this, you should demand a list of the companies that are maxing out the current $1 million R&D tax credit and see if you believe that increasing these companies' profitability is more important than helping families pay for child care to work at those companies. If the companies who want this tax break increase won't allow DOR to release their names, then obviously the tax credit isn't that important to them.

That's the second part of the bill. The first part of HB 2752 makes the tax credit into a refundable tax credit. This change puts R&D on the same footing at the Earned Income Tax Credit, which I believe is our only other refundable tax credit.

Making the tax credit refundable is absolutely untenable. You would essentially be allowing any company that can characterize some of its activities as R&D to receive up to $2 million a year from taxpayers, without so much as filling out a grant application. Thus, taxpayers would become investors with zero equity interest in the companies. The definition of R&D expenses allowed in federal law is very loose. This change would essentially mean taxpayers could be paying $2 million a year to our biggest traded sector companies that pay no income taxes, to financial services companies who are developing new software, to grocery stores who are designing their advertising campaigns, and to paint companies as they develop new paint colors for the year, all without so much as a grant application. I remind you, these expenses are already deductible from income. The idea of making the R&D tax credit refundable is outrageous.

R&D is the job of owners, investors or crowd sourcing, not the job of the General Fund.

We read the bills and follow the money