



Federal Research and Experimentation Tax Credit

The United States and other Organisation for Economic Co-Operation and Development (OECD) countries offer fiscal incentives for business R&D at the national and subnational levels (OECD 2017).^{*} For businesses, tax credits reduce the after-tax costs of R&D activities. For governments, tax credits are forgone revenue, known as tax expenditures. Such incentives are generally justified by the inability of private performers to capture the full benefits of R&D, given the intangible nature and abundant spillover effects of new knowledge and information.

The U.S. research and experimentation (R&E) tax credit was originally established by the Economic Recovery Tax Act of 1981 on a temporary basis. The credit was extended on a temporary basis 16 times through 2015. It was made permanent as part of the Protecting Americans from Tax Hikes Act of 2015 (P.L. 114-113, 18 December 2015). The R&E credit is incremental, with the credit amount calculated as an applicable credit rate times the amount of qualified research expense above a base amount; under the law, taxpayers may select one of several methods to calculate the credit.^{**} (For further details and a discussion of data on the use of the credit, see U.S. Department of the Treasury [2016]).

Based on estimates from the Internal Revenue Service (IRS) Statistics of Income, R&E tax credit claims fell to \$7.8 billion in 2009 from \$8.3 billion in 2008 but rebounded in subsequent years, totaling \$11.3 billion in 2013 (most recent data; Appendix Table 4-14). Likewise, the number of corporate returns claiming the credit dropped in 2009 compared with 2008 but resumed an upward trend in subsequent years. R&E credit claims relative to company-funded domestic R&D have fluctuated fairly narrowly between 3.0% and 4.4% since 2001 (3.6% in 2008, 3.5% in 2009, and increasing gradually to 4.4% in 2012 and 2013).

^{*} For general information on US and other OECD countries tax relief for business R&D see <http://www.oecd.org/sti/rd-tax-stats.htm>

^{**} See Internal Revenue Code (IRC) Section 41, as amended. See also IRS Form 6765 at <https://www.irs.gov/pub/irs-pdf/i6765.pdf>.