

The R&D Tax Credit Expansion Act (S.2207)

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Background: The Research and Development (R&D) tax credit promotes innovation by encouraging startups to invest in scientific research and the development of new technologies. When a company increases its R&D investment, the R&D tax credit covers a portion of this growth in research spending.

Most startups use the “refundable” R&D tax credit because they are not yet profitable enough to have income tax liability. Without income tax liability, businesses get no benefit from a non-refundable tax credit. The refundable R&D tax credit allows startups to claim the credit against the payroll taxes they pay on employee wages.

The Problem: Many new and small businesses have limited access to the R&D tax credit. There are several caps on the refundable credit and other barriers that reduce incentives for startups to grow R&D spending.

The Solution: The R&D Tax Credit Expansion Act will expand the refundable R&D tax credit by raising outdated caps and incentivizing startups to increase R&D investment.

Raising Outdated Caps on the R&D Credit for Startups

The current refundable credit is capped at \$250,000 and cannot exceed a business’ Social Security payroll taxes, which are 6.2% of wages. Further, a small business is only eligible for the refundable credit if its gross receipts are less than \$5 million.

The R&D Tax Credit Expansion Act will modernize the refundable R&D credit by:

- Doubling the credit cap from \$250,000 to \$500,000
- Expanding it to cover *all* payroll taxes paid by startups, which add up to 8.25% of payroll
- Increasing the business eligibility cap from \$5 million to \$10 million in receipts

Expanding Incentives for Startups to Increase R&D Investment

Startups can currently claim a 14% credit that covers increases in R&D spending, but older, larger companies can claim a 20% credit.

The R&D Tax Credit Expansion Act will encourage growth in startup R&D budgets by:

- Expanding the credit for startups that covers R&D increases from 14% to 20%
- Giving startups in their first years of profitability more flexibility to choose the R&D credit that fits their research budgets

The R&D Tax Credit Expansion Act is endorsed by:

Center for American Entrepreneurship, National Venture Capital Association,
Angel Capital Association, Information Technology & Innovation Foundation,
and Small Business and Entrepreneurship Council