

The American Innovation and Jobs Act

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Background: The tax code promotes innovation by encouraging new and established businesses to invest in scientific research and the development of new technologies. Companies investing in R&D can either deduct their research expenses or claim the R&D tax credit.

- *R&D deduction:* Currently, companies can choose to immediately deduct the full value of their R&D investments when they file taxes each year. However, due to a change made by the 2017 tax law, companies will soon be required to spread the deduction over a 5-year period. This change is effective in 2022.
- *R&D credit:* Many new and small businesses 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 their payroll taxes.

The Problem: The impending change to R&D deductions will reduce incentives to make long-term R&D investments. Further, current caps and restrictions on the refundable R&D tax credit limit its availability and usefulness for many new and small businesses. Both of these factors limit support for innovative companies and reduce job growth in R&D-intensive fields.

The Solution: The American Innovation and Jobs Act will restore immediate deductions of R&D investments and will expand the refundable R&D tax credit for startups by raising outdated credit caps. These changes will increase incentives for new and established businesses to invest in R&D and create jobs.

The American Innovation and Jobs Act will:

- *Restore incentives for long-term R&D investment* by ensuring that companies can continue to fully deduct R&D expenses each year by repealing the change made by the 2017 tax law to section 174 of the tax code
- *Expand support for innovative startups* by:
 - Immediately doubling the cap on the refundable R&D tax credit from \$250,000 to \$500,000, and ultimately raising it to \$750,000 over ten years
 - Expanding the credit for startups that covers R&D from 14 percent to 20 percent
- *Expand the number of startups eligible to use the refundable R&D credit* by:
 - Increasing the eligibility threshold from \$5 million to \$15 million in gross receipts
 - Increasing the period during which startups can claim the credit from 5 years to 8 years after beginning to generate at least \$25,000 in revenue

The American Innovation and Jobs Act is endorsed by:

National Association of Manufacturers
R&D Coalition