The R&D Tax Credit Expansion Act
Senators Maggie Hassan and Thom Tillis

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**The Solution:** The R&D Tax Credit Expansion Act will expand the refundable R&D tax credit by raising outdated caps and incentivizing startups to increase R&D investment.

**Raising Outdated Caps on the R&D Credit for Startups**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: the Center for American Entrepreneurship, National Venture Capital Association, Angel Capital Association, and Information Technology & Innovation Foundation