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U.S. NEEDS TO LEAD IN R&D, NOT FOLLOW
Tax Credit Creates Jobs, Fuels Economic Growth

(DALLAS-Sept. 7, 2010)—Extending business tax credits for research and development (R&D) and making them permanent are necessary to create and retain high-level jobs in the U.S., according to a new research paper released today by the National Center for Policy Analysis (NCPA). The report also concludes that expanding the R&D credits and making them permanent could grow gross domestic product (GDP) and increase taxable revenues.

“Manufacturing and high-tech companies would benefit almost immediately,” said Pamela Villarreal, NCPA Senior Policy Analyst and coauthor of the report. “The R&D tax credit reduces the tax burden on business spending that can have the greatest impact on productivity.”

In 1981, the U.S. enacted the most generous R&D credit of any nation, but today 16 other nations have a more generous tax break for R&D. For example, Spain (44 percent), Mexico (37 percent) and Canada (17 percent) have larger R&D tax credits than the U.S. (7 percent).

Consequently, U.S. firms are conducting R&D elsewhere:

- From 1998 to 2003, U.S. firms invested twice as much in R&D abroad as domestically.
- As a result, R&D as a share of GDP slipped in the U.S. from 1.84 percent in 2000 to 1.67 percent in 2003.

“Higher R&D investment yields greater productivity and higher tax revenues,” Villarreal said. “Making the credits permanent would provide incentives to conduct research and manufacturing in the U.S. rather than splitting the effort among nations.”

“Expanding the R&D credits to improve production methods (process R&D) will also result in increased jobs and productivity,” said Michael Barba, NCPA Graduate Student Fellow and coauthor of the paper.

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The [National Center for Policy Analysis \(NCPA\)](http://www.ncpa.org) is a nonprofit, nonpartisan public policy research organization, established in 1983. The NCPA's goal is to develop and promote private alternatives to government regulation and control, solving problems by relying on the strength of the competitive, entrepreneurial private sector. Topics include reforms in [health care](#); Medicare and Social Security; [retirement](#); [taxes](#); [small business policy](#); and [energy and environmental](#) regulation.