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STARTUP INNOVATION CREDIT

BACKGROUND

- Research and development is the cornerstone of any competitive company, institution, or country. The R&D Credit is essential for our innovators, but it does not help startups.

- Per the Government Accountability Office (GAO), over half of the credit goes to firms with $1 billion or more in receipts. Per the Congressional Research Service (CRS), numerous commercially successful technological innovations originated in small, fledgling firms that could not access the R&D Credit.

- The R&D Credit can only be used against income taxes that a company pays. But, if a company is in a startup phase, it may not have taxable profits. Yet, it still pays taxes on employee wages. The Startup Innovation credit is designed to allow startups to offset employee taxes.

- This is a jobs credit. According to some studies, between 1980 and 2005, all net new jobs created in the US were created by firms five years old or less. This credit is specifically designed for those firms.

- The credit helps support private sector investments and decisions. It does not pick winners and losers.

- Cash in the pocket of small companies can make a real difference, especially with credit so tight right now.

- Credits like this have been done before in Iowa, Arizona, New York, Connecticut, and Pennsylvania. These credits have been game changers and have helped open their doors and keep their doors open.

HOW THE CREDIT WORKS

If a startup company cannot claim the R&D credit because it does not have an income tax liability, it can claim it in the following year by reducing its employer-side payroll taxes by an equivalent amount.

Two Examples
Company A has an R&D credit of $60,000 in 2012, but no income tax liability. In 2013, Company A has a monthly payroll liability of $8,000. Company A would pay no payroll taxes for 7 months ($56,000) and during the eighth month, would pay $4,000 (to get up to $60,000). In months 9-12, the company would pay full payroll taxes.

In a different scenario, Company B has an R&D credit of $60,000 in 2012, but no income tax liability. In 2013, Company B has a monthly payroll of $1,000. Company B would pay no payroll taxes for 12 months ($12,000). The remainder ($48,000) can be used against payroll taxes in future years.

SPECIFICS

- <u>Eligibility:</u> Companies with less than $5 million in gross receipts, and less than 5 years old, may receive credit for the wages they have paid to their employees.

- <u>Cap on Refund:</u> The cap on the credit amount is $250k.

- <u>Cost:</u> JCT estimates that this provision will cost $180 million per year.