Summary of the Research Competitiveness Act of 2007

Makes Permanent the R&D tax credit:

This credit has simply not been as effective as it could be because of its temporary nature. It has been extended 11 times since its creation in 1981, and was allowed to lapse during one period after expiration. The credit last expired December 31, 2005, and a two-year extension (for tax years 2006 and 2007), was enacted in December of 2006.

Simplifies and Improves Existing R&D Credit:

Beginning in 2008, the bill creates a 20% credit for qualifying research expenses that exceed 50% of the average expenses for the prior three years. If no prior expenses, then the credit is 10%. The bill also mandates a Treasury study on substantiation requirements to ensure current compliance rules are sufficient.

Until the end of 2006, there were two different ways to claim a tax credit for qualifying research expenses: the "traditional" credit relied on incremental increases in expenses compared to a mid-1980's base period, while the "alternative incremental" credit measured the increase in research over the average of the prior four years. Since both of these credits rely on research expenses compared to gross receipts, Congress recently enacted a third method, known as the Alternative Simplified Credit or "ASC", based on research spending without reference to gross receipts, which has negatively impacted companies that have fluctuating sales or take on a new line of business not dependent on research and experimentation. The new ASC, which expires at the end of 2007 along with the other two methods of claiming the credit, only focuses on expenses, not gross receipts, and is still an incremental credit, so that companies must continue to increase research spending over time.

Establishes a Uniform Reimbursement Rate for all Contract and Consortia Research and Experimentation:

Provides that 80% of expenses for research performed by other parties for the taxpayer count as qualifying research expenses. Currently, only 65% of expenditures for contract research and 75% of expenditures for consortium research count as qualified research expenses for the R&D credit.

Simplifies and Improves the Basic (University) Research Credit:

Provides that payments under the University basic research credit count as contractor expenses at the rate of 100%. Because of its complexity, this credit has been limited to less than one-half of 1% of the regular R&D credit. It is completely under-utilized and needs to be simplified to encourage businesses to give to this type of research.

Provides Incentives for Creation of Research Parks:

Allows tax-exempt bond authority for state and local governments that want to build research parks. Private research entities would benefit from inexpensive buildings, lower rents, and proximity to others committed to furthering research.

A second related item is a small fix to address the issue of Universities that use tax-exempt bonds to build research facilities for federally-funded research, which are in danger of losing their tax-exempt bond status. The Bayh-Dole Act requires the federal government to retain a right over other private entities. In order to foster more basic research through federal-state-university partnerships, it must be clarified that this one provision of the Bayh-Dole act does not mean these bonds lose their tax-exempt status.

Assists Small, Start-up Companies:

Provides access to cheap capital for small, research intensive businesses through a "new markets" type tax credit. These small businesses cannot utilize the R&D credit, since they have no taxable income and simply need some capital investment to make it through the first few expensive research-intensive years. Qualifying Research Entities will be provided allocations of tax credits from Treasury in order to provide investments in small businesses with few assets but promising technology.