

# The FORWARD Act:

Furthering Our Recovery with American Research and Development

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Our continued response to and recovery from COVID-19 are hindered by critical vulnerabilities in the U.S. economy, many of which are due to under-investment in research, workforce training, and domestic supply chains. We have seen how important it is that American companies invest in new vaccines, new manufacturing techniques, new technology, and a skilled workforce. Supporting these companies through the tax code will help rebuild a stronger, more resilient economy.

## Context: Tax Support for R&D Builds Economic Resilience

- The R&D tax credit rewards companies that invest in the development of new products, new cures, and new technologies. For many firms—including manufacturers of the drugs, vaccines, and medical countermeasures that are in such short supply today—this federal incentive for high-risk projects is essential.
- Each \$1 of R&D tax spending drives at least \$1 of extra R&D and up to \$3 of economic output.
- Domestic investment in new technology, manufacturing techniques, and infrastructure insulates the economy from sudden changes in the global supply chain. Moreover, R&D-savvy manufacturers are better prepared to respond quickly to urgent national needs for products like masks, ventilators, and medical countermeasures.

## Problem: The U.S. Ranks 26<sup>th</sup> in Tax Support for R&D

- The R&D credit is much lower than it should be. The U.S. ranks eighth among OECD members for federal R&D spending as a share of GDP, down from fourth one decade ago. We rank even worse—26<sup>th</sup>!—for tax support. According to economists, the optimal amount of R&D investment is three to four times higher than the current level.
- Many of America's newest, most innovative firms cannot access *even the existing R&D tax credit* due to a lack of income tax liability. The *Innovators Job Creation Act*, authored by Senators Coons and Pat Roberts and enacted in 2015, made the R&D credit more accessible to a subset of early-stage startups—but further steps are needed.

## Solution: The FORWARD Act

- **Improves access** to the credit for new small- and medium-sized businesses. Firms with up to \$20 million in gross receipts will be eligible to use the credit to reduce their payroll tax obligation during a span of 8 years—up from current thresholds of \$5 million and 5 years. A new *de minimis* threshold delays the start of the 8-year window until gross receipts exceed \$25,000.
- **Targets** specific activities that strengthen the American economy by spreading knowledge, new ideas, and work opportunities to a larger fraction of the U.S. workforce. The full R&D credit is expanded to cover R&D-related worker training costs. For R&D performed by domestic manufacturers or in collaboration with other entities, the credit rate is increased by one quarter (to 25% and 17.5% for RRC and ASC, respectively).
- **Activates** the R&D credit by providing outreach, education, and training for businesses with limited accounting expertise, to be provided by the Small Business Administration and the IRS.

*Endorsers: American Small Manufacturers Coalition, the Information Technology and Innovation Foundation, Third Way, the American Society of Mechanical Engineers, Intelligent Manufacturing Systems International, the Delaware Small Business Development Center, the Association for Manufacturing Technology, the Manufacturing Alliance of Communities, Cover & Rossiter, the Delaware Prosperity Partnership, the State Science and Technology Institute, the University City Science Center, AlliantGroup, the Small Business Investor Alliance, and Advanced Manufacturing International.*