

MISSION:

A WORLD OF INNOVATION

Virginia's R&D Tax Credit



VIRGINIA BUSINESS PROFILE

- **Raytheon Company**
 - 61,000 employees worldwide; \$23 billion in 2014 sales
 - Raytheon spent over \$700 million on credit qualifying research in 2014 – directly contributing to over 15,000 engineering jobs.

- **Raytheon's presence in the Commonwealth**
 - 3,300 employees across all of Raytheon's business units located in Virginia
 - \$830.4M spent with 805 Virginia based suppliers
 - Raytheon's overall economic impact supports more than 16,000 jobs

- **Intelligence, Information and Services (IIS) HQ: Dulles, VA**
 - 17,000 employees worldwide; \$6 billion dollar business unit
 - Cyber security, Intelligence and Earth Observations, Mission Support and Modernization, and Global Training
 - Acquisitions of Blackbird Technologies and Websense to build a strong cyber business for the future

- **Raytheon International and Business Development HQ: Arlington, VA**
 - 550 plus employees; 28 US field offices; 17 international offices
 - More than 30% of Raytheon's business is international and growing

Raytheon Virginia has been vital in growing new key markets

FEDERAL R&D TAX CREDIT

- Federal Research & Development (R&D) Tax Credit Background
 - Original R&D tax credit was initially enacted in 1981.
 - U.S. currently ranks 17th among Organization for Economic Cooperation and Development (OECD) nations for R&D incentives.

- Alternative Simplified Credit (ASC) – Federal Formula
 - Introduced in 2006 to simplify the traditional R&D calculation that included historic gross receipts (1984-1988).
 - Formula is based on previous three year of Qualified Research Expenditures (QRE) as established by the Internal Revenue Code (IRC).
 - Currently, the ASC provides 14% credit above 50% of the base – established by the three year average.
 - The 2014 one-year extender estimate was \$7.6B
 - Federal ASC is estimated at \$100B over 10 years should it be made permanent at 14%.

- Alternative Simplified Credit (ASC) – H.R. 880 *“American Research and Competitiveness Act”*
 - Sponsored by John Larson (D-CT); Kevin Brady (R-TX)
 - Proposes increase from 14% to 20%.
 - To make the credit permanent.
 - Federal ASC at 20% is estimated at \$181.6B over 10 years.

- Federal R&D Coalition
 - National Association of Manufacturers – leading voice
 - R&D Credit Coalition – www.investinamericasfuture.org – for a full listing of the more than 50 membership organizations and specific companies who support this issue.

VIRGINIA R&D TAX CREDIT

■ Virginia's R&D Background

- Current formula established in 2011; modified in 2014 (to increase caps).
- Credit is limited to the first \$234,000 of qualified research expenses, which caps the credit at \$35,100 (15% rate) and \$46,800 (20% rate for research done with a VA university) per taxpayer.
- Annual limit for all taxpayers at \$6 million.
- Formula includes gross receipts, which isn't relevant to direct R&D expenditures.
- Many DOR's consider this approach to be antiquated and complicated to enforce.
- Limitations of both company and state cap make the credit for companies doing significant R&D irrelevant.

■ Virginia's R&D – HB-1743

- Proposes the Alternative Simplified Credit formula (federal conformity).
- Formula is based on previous three year of Qualified Research Expenditures (QRE) as established by the Internal Revenue Code (IRC) and proposes 10% above the base (versus 14%).
- Credit is more easily verified and managed by DOR.
- Under review by JCOTS – September 16 meeting

Virginia R&D Proposed Calculation (ASC)		
		Virginia QREs
Current Year (Year 4)		10,500,00
Previous Years		
Year 3		9,500,000
Year 2		11,000,000
Year 1		9,500,000
Total		30,000,000
Average QREs for three preceding tax years		10,000,000
Base: Multiply 3 yr. Avg. QRE by 50%		5,000,000
Subtract Current Year QRE from Base		5,500,000
Multiply QRE increase over the base by 10%		550,000
Virginia R&D Credit would be \$550,000		

Virginia competitiveness for R&D is at stake!

STATE COMPARISONS

- States with R&D formulas
 - 38 states allow for some version of an R&D tax credit (as of 2011).
 - Variations exist between the traditional formula, ASC and hybrids.
 - Application of the formula is a further hindrance to value (i.e. company caps, statewide caps, and submission timelines).
 - Limitation based on use within enterprise zones, universities, company size

- States who use ASC
 - Indiana, Iowa, Massachusetts, Rhode Island, Texas, Utah

- States with ineffective R&D
 - Colorado, Florida, Illinois, Maryland, Pennsylvania, Virginia

- States with no R&D
 - Alabama, Kentucky, Mississippi, North Carolina (expires 2016), Tennessee