

Revitalizing the R&D Credit

A large number of Wisconsin-based businesses conduct substantial research within the state and are eligible to claim a non-refundable state research and development tax credit. Due to the economic contraction several years ago, many of these companies have been unable to utilize the accumulated R&D credits and are in danger of losing what they have earned before those credits expire.

Background

The state R&D credit was first made available in the 1980s. A three-year rolling average of a company's qualified research expenses are measured to determine the credit, which is awarded for expenses that are above and beyond 50% of that average. Most businesses can claim a credit of 5.75% of qualified expenses; manufacturers of internal combustion engines for vehicles can claim a credit of 11.5%.

Capital expenses for buildings and equipment are largely ineligible for the credit. Nearly all of the credit is tied to employee wages allocated for research. The credit rewards high-skill, high-wage jobs created in Wisconsin.

Diminished Value of the Current Credit

Steep losses incurred by some many companies in the Great Recession resulted in substantial net operating losses which have been carried-forward to apply to these companies' tax liabilities, significantly reducing them.

The loss carry-forward has served a valuable role in helping companies recover from the recession and avoid layoffs and spending reductions but it has also negated the effectiveness of the R&D credit as a incentive for investment and hiring. Lacking a tax liability to offset, the financial benefit of this credit is lost. Wisconsin risks losing R&D investment – and corresponding high-wage jobs – to other states if policy is not changed to encourage those investments.

R&D Investment Differs from Production

A reduced tax liability is attractive for manufacturing production but does nothing to validate R&D investment. When companies decide where to invest in this expensive technology and skilled employees, they look at the total cost of the investment including incentives. Thirty-six states have a R&D credit. Wisconsin will lose out to other state for without an effective credit that sets it apart.

Twelve states either have refundable R&D credits or allow excess non-refundable credits to offset another tax liability. To capture and maintain large research investments, Wisconsin should join the ranks of those states which offer a benefit above and beyond what most states do.

Policy Request

Ensure the state R&D tax credit is useful to companies that make significant research investments in Wisconsin by allowing currently unusable credits to become refundable.