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## Happy Days for Research: Tax Extenders Clear Senate Finance With Expanded R&D Tax Credit

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Today the Senate Finance Committee (as I predicted in Forbes a bit ago) took the first key step on tax extenders – passing legislation that extends a number of expiring or expired tax provisions. The package includes tax breaks for individuals, including the deduction for state and local sales taxes and the deduction for mortgage insurance premiums, as well as some key tax benefits for business, including the Research and Development (R&D) tax credit; Work Opportunity Tax Credit; Expensing (Section 179); Bonus Depreciation; and breaks encouraging energy efficiency, such as the Energy Efficient Commercial Building Deduction (Section 179D).

The provisions in the bill are all extended for two years – covering all of 2014 and 2015 (so no break in benefits for those provisions which expired at the end of 2013).

### **R&D Tax Credit - In and Expanded**

The R&D tax credit has always been the popular engine that drives the extenders train. That was true today. What is particularly big news though is that the Committee agreed to accept a bipartisan amendment offered by Senators Schumer (D-NY) and Roberts (R-KS) that really puts a big kick into the R&D tax credit – making start-ups effectively eligible for the first-time and also helping small and medium businesses enormously by allowing the R&D tax credit to be claimed against the individual AMT for 2014 and 2015. (This was allowed in 2010 and was a huge plus for businesses operating as S Corps and partnerships, which pass through all their income and tax breaks to their individual owners' tax returns). Particularly heartening: the strong comments by the new Chairman, Senator Wyden (D-OR) in favor of the amendment, a good signal that this provision will survive any conference with the House.

These two provisions are real game changers when it comes to R&D and encouraging innovation and jobs growth in this country – as I've written about in the past on the start-up provision (long-championed by Senator

Coons (D-DE) and detailed here on the importance of allowing the R&D tax credit against AMT – (a shout-out to Senator Grassley (R-IA), my old boss, who has helped pull the oars on the AMT turnoff for R&D starting in 2010). These provisions will help get the benefits of the R&D tax credit to some of our most innovative companies in the country – and our best job creators.

The change in the R&D tax credit for startups will allow a company to take a credit of up to \$250,000 against the payroll taxes the company pays on its employee wages. The benefit is available only for companies that have existed for less than five years (targeting this benefit for startups) and that have less than \$5 million in annual gross receipts.

### What is next?

The Senate Finance Committee is the vital starting point for extenders. The extenders bill will now go to the Senate floor for consideration. It is strongly anticipated that the Senate will give a heavy vote in favor of the extenders bill – signaled by the good bipartisan voice vote (hardly a nay was heard) on final passage in the Finance Committee. At the moment, it's uncertain when the Senate will take up the tax extenders bill (this has to do with bigger issues of managing the Senate floor), but the strong action by the Finance Committee and the good bipartisan support speaks to it being brought forward for consideration by the Senate sooner rather than later.

The House Ways and Means Committee is switching gears from tax reform to tax extenders and will have a hearing next week on the issue. It's too early to say what the House Republicans will do. But look for the Democrats in the Senate to pass an extenders bill and then happily start asking why the House isn't joining them in providing popular tax relief to working families and businesses in this country. While the popular thought is tax extenders won't happen until after the November elections in a lame duck session, given today's bipartisan display there is a chance extenders may be addressed prior to the elections, with both parties claiming the mantle of tax cuts.



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