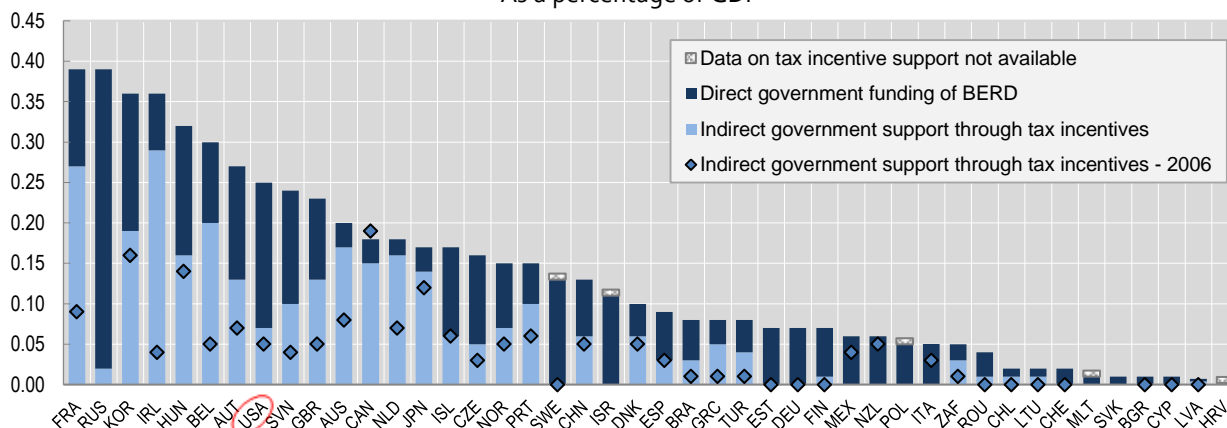


# R&D Tax Incentives: United States

## 1. Public support for business R&D: the mix of direct funding and tax relief

Governments in many countries seek to promote R&D investment in the economy by granting a preferential tax treatment to eligible R&D expenditures, especially those incurred by firms. In 2016, 29 of the 35 OECD countries, 22 of 28 EU countries and a number of non-OECD economies offer R&D tax incentives<sup>1</sup>.

**Figure 1. Direct government funding of business R&D and tax incentives for R&D, 2014 (nearest year)**  
As a percentage of GDP



Source: OECD, R&D Tax Incentive Indicators, <http://oe.cd/rdtax>, March 2017.

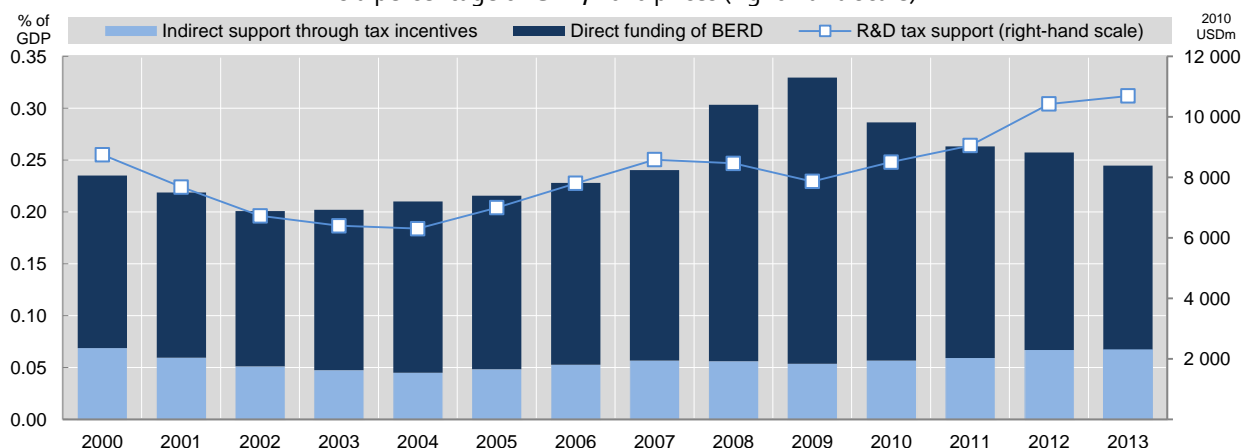
### Main points:

- The United States ranks 8th among OECD and other major economies in terms of the total volume of (central) government support for business R&D, equivalent to 0.25% of GDP.
- Tax incentives account for 28% of total public support for business R&D in the United States.
- From 2006 to 2014, R&D tax support as a percentage of GDP increased in the United States by 0.02 percentage points. This increase is identical to the one observed at the OECD median.

## 2. Trends in government support for business R&D

Over the last decade, several OECD countries have increased their reliance on R&D tax incentives. However, this trend has not been uniform. In many economies, the relative importance of tax incentives declined briefly following the global financial crisis, reflecting their demand-led nature and dependence on profits.

**Figure 2. Direct funding of business R&D and tax incentives for R&D, United States, 2000-13**  
As a percentage of GDP, 2010 prices (right-hand scale)



Source: OECD, R&D Tax Incentive Indicators, <http://oe.cd/rdtax>, March 2017.

### Main points:

- In the United States, R&D tax support rose from USD 8.7 billion to USD 10.7 billion from 2000 to 2013.
- As percentage of GDP, tax support remained practically unchanged at 0.07% of GDP over this period.
- Direct funding of BERD increased slightly from 0.17% of GDP in 2000 to 0.18% of GDP in 2013.

<sup>1</sup> This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities or third party. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

### 3. Design of R&D tax incentive support

Countries differ in the extent to which they rely on tax measures to support R&D, and those that do design tax relief measures in substantially different ways. Key design features relate to the type of tax instrument, eligible R&D costs, provisions for firms with insufficient tax liability, ceilings and thresholds among others.

Table 1. Main design features of R&D tax incentives<sup>†</sup>

		Federal research and experimentation tax credit			
Tax incentive		Regular research credit	Alternative simplified credit	Credit for basic research	Energy research credit
Type of instrument		Incremental			Volume-based
Eligible expenditures <sup>†</sup>		Current			
Headline rates (%)		20	14 (6 if no R&D in past 3 years)	20	20
Refund		Certain start-ups only: Tax offset against PWHT instead of income tax liability			
Carry-over (years)		20 (carry-forward), 1 (carry-back)			
Thresholds	Base amount	Yes*	Yes**	Yes <sup>∞</sup>	No
	R&D tax relief	Net income tax less the greater of TMT or 25% of tax liability above USD 25 000. For eligible small business, TMT treated as zero			
Ceilings	Refund-specific	USD 250 000 (certain start-ups only)			

PWHT: Payroll withholding tax; TMT: Tentative Minimum Tax liability; \*: Product of a firm's average annual gross receipts in previous four tax years and the ratio of its qualified research expenses and gross receipts during its base period; \*\*: 50% of the average qualified research expenses for the three preceding years; <sup>∞</sup>: Sum of (a) the greater of two minimum basic research floors plus (b) an amount reflecting any decrease in non-research giving to universities by the firm as compared to such giving during a fixed-base period.

<sup>†</sup>For additional information: [OECD R&D Tax Incentive Compendium](#) and [Eligibility of current and capital expenditure for R&D tax relief](#)  
Source: OECD, R&D Tax Incentive Indicators, <http://oe.cd/rdtax>, March 2017.

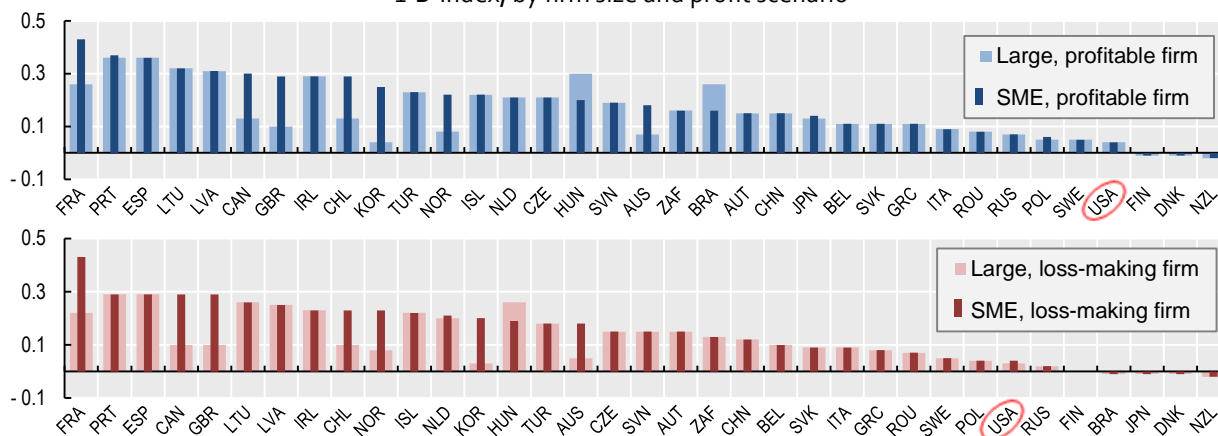
**Main points:**

- The United States provide R&D tax relief through an incremental R&D tax credit with 4 components.
- In the case of insufficient tax liability, unused tax credits can be carried-forward for 20 years. Since 2016, certain start-ups may elect to apply a portion of their research credit (up to USD 250 000) against their payroll tax liability, instead of their income tax liability.
- A ceiling applies on the amount of R&D tax relief that can be claimed in the reporting period.

### 4. Generosity of R&D tax support

The design of R&D tax incentives influences the "expected" generosity of tax relief per additional unit of R&D investment. Across OECD and partner economies providing tax relief, there is a significant variation in tax subsidy rates for firms of different size and profitability.

Figure 3. Implied tax subsidy rates on R&D expenditures, 2016  
1-B-Index, by firm size and profit scenario



Source: OECD, R&D Tax Incentive Indicators, <http://oe.cd/rdtax>, March 2017.

**Main points:**

- In the United States, the marginal tax subsidy rate for profitable and loss-making SMEs is estimated at 0.04; significantly below the OECD median of 0.18 (0.11) for profitable (loss-making) SMEs.
- The tax subsidy rate for profitable (loss-making) large enterprises in the United States is 0.04 (0.03); smaller than the OECD median of 0.11 (0.09) for profitable (loss-making) large enterprises.

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