

21st Century Manufacturing Act

TAX REFORM TO SUPPORT WISCONSIN'S INNOVATIVE MANUFACTURERS

Senator Baldwin's *21st Century Manufacturing Act* will reform the tax code to better support manufacturers and promote investment in research and development.

1. Revise the R&D Tax Credit

The *21st Century Manufacturing Act* will change the current R&D tax credit to make it more accessible for small and medium businesses, especially manufacturers.

In 1981, the U.S. became the first nation to recognize the importance of encouraging research and development when it established the world's first R&D tax credit. Since that time, the United States' leadership in encouraging private investment in R&D has waned. In 2012, the Information Technology and Innovation Foundation (ITIF) estimated that the U.S. is 27th in R&D tax incentive generosity. Additionally, fewer activities are eligible for the credit in the U.S. and documentation requirements here are more onerous for smaller firms.

These factors combine to create an R&D credit that is dominated by large corporations who have the resources to file for the credit. A 2009 GAO report concluded that this misallocation of resources causes, "missed opportunities for the country to benefit from research projects with higher social rates of return."

Smaller American firms are innovating. They create technological advances, new products, jobs, and economic growth. However, these R&D efforts are not incentivized by the current R&D tax credit. This legislation would change that.

2. Encourage Investments in Next-Generation Equipment

The *21st Century Manufacturing Act* will also promote the adoption of connected manufacturing technology through a new investment tax credit for manufacturers.

Many manufacturers are under-investing in the next generation of manufacturing technology—connected manufacturing. 'Smart' equipment and factories can vastly improve productivity by taking corrective actions before problems arise.

Governments in China and Germany are pouring money into investments in the new technology. In order to compete, the U.S. must take steps to encourage its manufacturers update to connected equipment.

The *21st Century Manufacturing Act* will:

- Increase the alternative simplified credit from 14 percent to 20 percent.
- Allow firms to use cost reduction and creating new uses for their products to count as qualified research expenditures.
- Allow firms to count managers of research products as qualified research expenditures.
- Allow companies to deduct ten percent from expenditures on 'connected manufacturing equipment.'