



Proposed R&D credit benefit for start-ups and small businesses in the US

Senator Maggie Hassan (D-NH), a member of the Senate Finance Committee, and Senator Thom Tillis (R-NC) introduced bipartisan legislation to double the refundable research and development (R&D) tax credit for startups and extend it to more small businesses. The R&D tax credit supports the efforts of businesses to invest in the development of new, innovative products that lead to job creation and a stronger economy. The bill has the following propositions:

- The refundable R&D tax credit cap should be increased from \$250,000 to \$500,000 and the cap should be indexed for inflation.
- The refundable R&D credit should cover all payroll taxes paid by businesses, which amount to 8.25% of payroll, including Social Security (6.2% of wages), Medicare (1.45% of wages), and unemployment payroll taxes (typically 0.6% of wages).
- The eligibility cap for small businesses should be increased from receipts of \$ 5million to \$ 10 million.
- The alternative simplified R&D credit should be increased from 14% to 20% for new and small businesses that are eligible for the refundable credit.
- In the first year, a new start up can claim 20% alternative simplified credit against current year R&D spending. Then, through the first five years of profitability, a new startup without R&D spending in each of the previous three years can choose either: (1) a 10% credit against current-year R&D, or (2) the full expanded 20% credit for R&D spending that is above half of its previous three-year average, not counting any years without R&D spending.



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