

March 18, 2014

Ways & Means Committee
Vermont State Legislature
Montpelier, VT

Re: Vermont R&D Credit

Dear Committee Members:

Betsy Bishop of the Vermont Chamber mentioned the Committee is considering an amendment to the state's research and development credit. As the Tax Director of one of the state's largest employers and a proponent of the R&D credit, I felt obliged to submit this letter.

GMCR has utilized the federal and Massachusetts R&D credit for brewer innovation since we purchased Keurig in 2006. When Vermont passed its R&D credit legislation effective January 1, 2011, we finalized plans to develop our portion pack R&D work in Vermont near our manufacturing facility and purchased the Suss building in Waterbury Center.

GMCR spent \$57.7 million on R&D in fiscal year 2013, compared to \$41.7 million and \$17.7 million in FY 2012 and 2011, respectively. For our fiscal year ended September 2012, GMCR had almost \$4.0 million in R&D wages for employees in Waterbury Center with an average annual salary of \$70,000. Vermonters with this level of income support local infrastructure as well as the state education, health care, and transportation systems.

The federal R&D credit is calculated to reduce a company's R&D credit over a period of time as it invests in research and development. The calculation averages the past three years of qualified research expenses (QREs) and then allows a deduction only for those current year QREs that exceed 50% of that three-year average. As a company grows and spends more on R&D, that three-year average increases, making the credit smaller.

In addition, not all R&D expenses are QREs. Machinery and equipment or other assets that are capitalized are not included in the QRE number. Quality control functions are not QREs. Salaries of management-level employees must be allocated between R&D and management duties, reducing the QRE. The actual amount of the credit ultimately received is only a small fraction of the QREs.

Most states have some type of R&D credit, and each state determines how it is calculated. Massachusetts, for example, allows a credit for 5% of Massachusetts QREs. This simplifies the calculation for companies that have R&D facilities in more than one state.

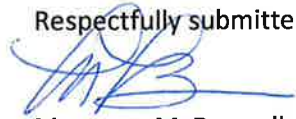


Vermont has gone to great lengths to encourage education and job growth in science, technology, engineering and mathematics. The Vermont R&D credit has not had time to produce a measurable return on investment. In the long run, providing companies an incentive to hire, train, and develop highly-skilled employees through an R&D credit is a small price to pay for the benefits the state will receive in the future.

Although the federal R&D credit expires just about every December 31st, Congress has historically been able to retroactively extend the credit. The reason is that an R&D credit encourages growth in important segments of our economy and keeps us focused on the future.

I respectfully request that the Vermont legislature allow the R&D credit to develop as one more investment in the future of its residents and corporate citizens.

Respectfully submitted,



Margaret McDonnell

Tax Director

(802) 488-1449

margaret.mcdonnell@gmcr.com