



Testimony on the Research & Development Tax Credit

House Ways & Means Committee

Betsy Bishop, President

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- Thank you for taking a look at restoring the R&D tax credit.
- I understand your focus is the numbers...how many companies use it, will more use it, what is the value of the tax credit, etc. Unfortunately, I cannot provide that data, the state is much better equipped to that. Instead, today I'm going to put forth a bit of history and strategy for this tax credit. Essentially, the "why" of this tax credit.
- It's a key component in Vermont's economic growth strategy which is focused on growing Vermont companies that utilize technology throughout many different industries.
- We see that breadth in the information in the lists of users... medical components, food manufacturing, technology, electronics.
- These industries drive the Vermont economy not just by creating new jobs but retaining existing ones and investing in other ways through capital expenditures, training and benefits.
- The R&D Tax Credit is a key component of that strategy. By all measures, it is a huge success. The Vermont Chamber appreciates your role in recognizing this as a key economic development component and commends this committee for your past support.

Economic Growth Strategy

- Vermont is a creative, innovative place. Vermonters invent things – lots of things. Businesses are innovating in technology and software development, building the foundation for Vermont's future in the 'new economy.'
- Vermont has developed a track record for encouraging knowledge based businesses to grow and locate here.
 - We adopted a state research and development tax credit in 2009.
 - We adopted a technology loan program at VEDA focused on this industry in 2010.
 - We have offered a STEM hiring initiative for recent college graduates in 2011.
 - We have implemented a new law discouraging patent troll activity 2013.
 - We have also repealed the cloud tax.

- We have implemented incentives for this industry in our Vermont Employment Growth Incentive program.
- And the world is taking notice. Back in 2012 we were named #1 in the country for patent innovation by CNN Money¹ and they also named us #8 in the nation for entrepreneurship.²
- Vermont is also home to large, medium, and small tech companies that are developing and exporting hardware and software solutions to companies around the world – often in web-based applications.
 - Small start-ups tech companies and innovation hubs (Local 64, bioscience)
 - Medium sized tech companies that are growing fast (Dealer, MWG)
 - Very large global tech companies (IBM, Global Foundries)
- The Vermont Chamber has championed these initiatives to ensure we have a cohesive economic growth strategy that continues to showcase Vermont as a great place to start and grow a business.

Restoring the Credit

- Before this was enacted, we anticipated that the use of this credit will grow over time for several reasons:
 - It was a new incentive
 - It had not yet been widely marketed and still hasn't (more on that later)
- I encourage you to think of growth in this area as a very positive sign for the economy
- Even with the anticipated growth of the credit there is a threshold built into the federal credit which you get for increasing your level of R&D.
- Therefore, we would like to see the credit restored to the 30% level.
- The growth of the tax credit is a measure of success and the benefits of encouraging R&D in this state are vast.
 - These are high paying jobs
 - R&D jobs spin off production jobs
 - They are movable jobs
 - They have been identified as the type of jobs we want more of – knowledge based jobs
- The growth indicates that it is doing what it is designed to do – creating investment in R&D

Marketing Vermont

- In 2015, we introduced a new concept...to market Vermont as a place to live and work and build a business. We have never done this.
- We secured a \$200,000 appropriation to create a plan to do this and it was published last summer. We are thrilled that the Governor's budget contains funding to execute this plan.

¹ CNN Money: <http://money.cnn.com/gallery/smallbusiness/2012/10/24/states-patent-invention/index.html>

² CNN Money: <http://money.cnn.com/galleries/2012/smallbusiness/1206/gallery.best-places-entrepreneurs/8.html>

That means that over two administrations from different parties, we as a state have recognized the need for economic development marketing. We need to tell people both in Vermont and others outside our borders about what makes Vermont great. We need to market our opportunities to increase our economic output and our population.

- This strategy on growing the knowledge based jobs that rely on R&D is by design.
- We need to tell people about our state and we need to have policies that support our claims.

Sending the right signal

- It's important to continue to show that Vermont is committed to the economic growth strategy, encouraging companies to invest in R&D.
- It's important to show that we want to be competitive globally, that we want these businesses to move here, start here and grow here.
- Restoring the R&D tax credit, will do that.