The FORWARD Act:

Furthering Our Recovery with American Research and Development

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The COVID-19 pandemic has highlighted critical vulnerabilities in the U.S. economy, many of which are due to under-investment in research, workforce training, and domestic supply chains. Now more than ever, we depend on American companies to make investments in search of new vaccines, new manufacturing techniques, and new technology. Supporting these companies through the tax code—particularly during an economic downturn—is a critical part of weathering the crisis and rebuilding a stronger, more resilient economy.

Context: Tax Support for R&D Builds Economic Resilience

- The R&D tax credit rewards companies that invest in the development of new products, new cures, and new technologies. For many firms—including manufacturers of the drugs, vaccines, and medical countermeasures that are in such short supply today—this federal incentive for high-risk projects is essential.
- Each $1 of R&D tax spending drives at least $1 of extra R&D and up to $3 of economic output.
- Domestic investment in new technology, manufacturing techniques, and infrastructure insulates the economy from sudden changes in the global supply chain. Moreover, R&D-savvy manufacturers are better prepared to respond quickly to urgent national needs for products like masks, ventilators, and medical countermeasures.

Problem: The U.S. Ranks 26th in Tax Support for R&D

- The R&D credit is much lower than it should be. The U.S. ranks eighth among OECD members for federal R&D spending as a share of GDP, down from fourth one decade ago. We rank even worse—26th!—for tax support. According to economists, the optimal amount of R&D investment is three to four times higher than the current level.
- Many of America's newest, most innovative firms cannot access *even the existing R&D tax credit* due to a lack of income tax liability. The *Innovators Job Creation Act*, authored by Sens. Coons and Roberts and enacted in 2015, made the R&D credit more accessible to a subset of early-stage startups—but further steps are needed.

Solution: The FORWARD Act

- **Improves access** to the credit for new small- and medium-sized businesses. Firms with up to $20 million in gross receipts will be eligible to use the credit to reduce their payroll tax obligation during a span of 8 years—up from current thresholds of $5 million and 5 years. A new *de minimis* threshold delays the start of the 8-year window until gross receipts exceed $25,000.
- **Targets** specific activities that strengthen the American economy by spreading knowledge, new ideas, and work opportunities to a larger fraction of the U.S. workforce. The full R&D credit is expanded to cover R&D-related worker training costs. For R&D performed by domestic manufacturers or in collaboration with other entities, the credit rate is increased by one quarter (to 25% and 17.5% for RRC and ASC, respectively).
- **Activates** the R&D credit by providing outreach, education, and training for businesses with limited accounting expertise, to be provided by the Small Business Administration and the IRS.

Endorsers: American Small Manufacturers Coalition, Information Technology and Innovation Foundation, Center for American Entrepreneurship, Third Way, Intelligent Manufacturing Systems International, DE Small Business Development Center, Association for Manufacturing Technology, Manufacturing Alliance of Communities, Cover & Rossiter, DE Prosperity Partnership, National Center for Defense Manufacturing and Machining, State Science and Technology Institute, University City Science Center, AlliantGroup, Small Business Investor Alliance, American Society of Mechanical Engineers.