113TH CONGRESS
2d Session

HOUSE OF REPRESENTATIVES

REPORT
113–431

AMERICAN RESEARCH AND COMPETITIVENESS ACT OF 2014

MAY 2, 2014.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. CAMP, from the Committee on Ways and Means, submitted the following

R E P O R T

together with

DISSENTING VIEWS

[To accompany H.R. 4438]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 4438) to amend the Internal Revenue Code of 1986 to simplify and make permanent the research credit, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

CONTENTS

39–006

D. Macroeconomic Impact Analysis

In compliance with clause 3(h)(2) of rule XIII of the Rules of the House of Representatives, the following statement is made by the Joint Committee on Taxation with respect to the provisions of the bill amending the Internal Revenue Code of 1986: the effects of the bill on economic activity are so small as to be incalculable within the context of a model of the aggregate economy.

The bill simplifies and makes permanent a 20 percent tax credit for qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding years, thus lowering the cost of research and development for businesses. Economic theory suggests that increased research expenditures would promote an increase in economic output by promoting technological development, and hence increasing the productivity of labor and capital. Theory is less clear on the extent to which increasing research intensity is subject to diminishing returns.[15]

To the extent that research activities are responsive to changes in their cost, the tax credit should increase such expenditures. Economic research that has attempted to measure how responsive firms' research expenditures are to tax and other incentives has yielded a wide range of estimates.[16] JCT staff estimates this bill could increase research expenditures by up to 10 percent.

Studies that have attempted to quantify the effect of research expenditures on factor productivity are also subject to a significant amount of uncertainty. It is difficult to find objective measures of productivity, and of the stock of knowledge created by research expenditures, that can be used in econometric analyses. It is also difficult to establish links between research expenditures within certain firms, or within industries, or even within specific countries, because other firms or industries may also benefit from technological development produced by those expenditures. And it is difficult to separate out the effects of research expenditures from other possible influences on productivity.[17] Notwithstanding the methodological challenges in estimating the magnitude of this effect, these studies generally find positive returns to research expenditures, providing support for the hypothesized link between research spending and increased productivity and growth.

Finally, in the short-run, the net reduction in tax receipts resulting from the bill could provide for a small increase in overall demand, thus resulting in some economic growth. In the longer term, the resulting increase in deficits would result in higher interest rates, reducing the positive investment incentive effects.

Overall, we estimate that the effects of the bill on economic activity are so small and uncertain relative to the size of the economy

[15] Charles Jones discusses the role of research in growth theory in "R&D-Based Models of Economic Growth," *The Journal of Political Economy,* 103(4), August 1995, pp. 759–794, and speculates on future trends in productivity growth in the context of this theory in Fernald, John G. and Charles I. Jones, "The Future of U.S. Economic Growth," *AEA Papers and Proceedings, forthcoming*.

[16] A description of several of these studies, along with additional economic analysis of tax subsidies for research expenditures, may be found in Joint Committee on Taxation, *Description of Revenue Provisions Contained in the President's Fiscal Year 2013 Budget Proposal,* (JCS–2–12), June 2012, pp. 100–116.

[17] Bronwyn H. Hall, Jackques Mairesse, and Pierre Mohnen discuss these issues in a survey of studies that have attempted to measure the effects of research expenditures on factor productivity and the rate of return on investment in *Measuring the Returns to R&D,* National Bureau of Economic Research Working Paper 15622, December 2009.

as to be incalculable within the context of a model of the aggregate economy.

V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

A. Committee Oversight Findings and Recommendations

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it was as a result of the Committee's review of the provisions of H.R. 4438 that the Committee concluded that it is appropriate to report the bill, as amended, favorably to the House of Representatives with the recommendation that the bill do pass.

B. Statement of General Performance Goals and Objectives

With respect to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee advises that the bill contains no measure that authorizes funding, so no statement of general performance goals and objectives for which any measure authorizes funding is required.

C. Information Relating to Unfunded Mandates

This information is provided in accordance with section 423 of the Unfunded Mandates Reform Act of 1995 (Pub. L. No. 104–4).

The Committee has determined that the bill does not contain Federal mandates on the private sector. The Committee has determined that the bill does not impose a Federal intergovernmental mandate on State, local, or tribal governments.

D. Applicability of House Rule XXI 5(b)

Rule XXI 5(b) of the Rules of the House of Representatives provides, in part, that "A bill or joint resolution, amendment, or conference report carrying a Federal income tax rate increase may not be considered as passed or agreed to unless so determined by a vote of not less than three-fifths of the Members voting, a quorum being present." The Committee has carefully reviewed the bill, and states that the bill does not involve any Federal income tax rate increases within the meaning of the rule.

E. Tax Complexity Analysis

Section 4022(b) of the Internal Revenue Service Restructuring and Reform Act of 1998 (the "IRS Reform Act") requires the staff of the Joint Committee on Taxation (in consultation with the Internal Revenue Service and the Treasury Department) to provide a tax complexity analysis. The complexity analysis is required for all legislation reported by the Senate Committee on Finance, the House Committee on Ways and Means, or any committee of conference if the legislation includes a provision that directly or indirectly amends the Internal Revenue Code and has widespread applicability to individuals or small businesses.

Pursuant to clause 3(h)(1) of rule XIII of the Rules of the House of Representatives, the staff of the Joint Committee on Taxation