The Job Creation Through Innovation Act

A proposal to jumpstart domestic manufacturing, promote growth for small businesses and create high-paying American jobs

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Background: Our nation's formula for economic success has always been the unstoppable combination of an innovative citizenry and investment in cutting-edge research. This is what generates companies that invent new, research-driven products that in turn create sustainable, middle class jobs here in the United States. Innovative businesses have long been leaders in creating new jobs based on new technology, and small businesses that invest in cutting-edge research promise to be the engines that drive our economic recovery. We must recognize this potential to jumpstart our economy and foster an environment in which all businesses investing in new technologies can expand and prosper—providing new employment opportunities for thousands of Americans and developing solutions to some of our nation's most pressing challenges. In this way, we can retain our role as a global leader in innovation and maintain American competitiveness.

The Job Creation Through Innovation Act has five components:

Expand, Simplify and Make Permanent the Research & Development Tax Credit: In 1981, when the R&D credit was originally enacted into law, the U.S. was the best place in the world to perform R&D. Now 30 years and 14 temporary credits later, there still is no commitment to a permanent credit in the U.S. Our inaction is taking a toll on U.S.-based R&D as many countries around the globe now offer attractive, more generous research incentives. The Act would address this problem by simplifying the R&D tax credit, making it permanent and increasing the rate from 14 to 20 percent.

Create a New Small Business Innovation Tax Credit: Under current law, the R&D tax credit is non-refundable, which is to say that only firms with income tax liability can benefit from the credit. The credit's non-refundable status poses a special problem for small, fledgling research-intensive firms. In recent decades, numerous commercially successful technological innovations have originated from such firms. Many of these firms spend substantial sums on R&D during their first few years, despite experiencing large financial losses. For this reason, the Act would create a new small business innovation credit by allowing firms with 500 employees or less to claim a new, refundable R&D credit.

Create a New Domestic Manufacturing Tax Credit: Although it remains one of America's largest and most productive industries, U.S. manufacturing has been hit hard over the past decade by business closings and job losses that have been exacerbated by the recession. R&D is a key driver of manufacturing activities, but America's support for its manufacturers lags behind other nations, including countries like China, Brazil, and India. The Act includes a new Domestic Manufacturing Tax Credit to provide additional tax incentives to companies that both research and manufacture their products in America, stimulating job growth and helping to keep R&D in the U.S.

Extend the 1603 Treasury Grants Program: The Section 1603 Program provides payments for specified energy property in lieu of investment and production tax credits. Prior to the economic meltdown, clean energy project developers relied heavily on tax equity partnerships with investors to take advantage of clean energy tax incentives. In 2008, the economic meltdown froze an estimated $8 billion

in the tax equity market, jeopardizing billions of dollars in clean energy investment. Having economic certainty is critical to wind, solar, geothermal, and other clean energy projects. According to a survey of leading participants in the tax equity market, absent an extension of the 1603 program, the anticipated total financing available for renewables was expected to decrease significantly when it was due to expire in 2011. This would have jeopardized investments providing benefits in additional electricity generating capacity, increased energy security, associated jobs, and avoided environmental impacts. Fortunately, it was extended for one year through December 2011. The Act provides another one-year extension through December 2012.

Invest in the Advanced Energy Manufacturing Tax Credit: The Advanced Energy Manufacturing Tax Credit, or 48C Incentive, provides a 30 percent investment tax credit to domestic manufacturers to build or expand facilities that make a range of clean energy technologies and products. In 2009, Congress authorized and appropriated $2.3 billion in these credits. The tax credits are worth 30 percent of the qualifying project. This means that they can leverage billions more in private capital to encourage more clean-tech industries in the United States. The original federal investment of $2.3 billion leveraged more than $5.4 billion of private investment that supported the creation of manufacturing jobs. The funds distributed through that first wave of projects were estimated to create 17,000 jobs, plus an additional 41,000 jobs through matching private investment. The Act provides an additional $5 billion in incentives of which up to $1.5 billion would be available for previous applications under the original solicitation.

Cost: JCT has not yet scored this legislation.