

*Increasing Investment and Jobs in Life Sciences in the United States
Through Targeted R&D Tax Incentives
Summary of Findings*

- The life sciences industry makes significant contributions to the U.S. economy, supporting millions of jobs, contributing to advancements in medical knowledge, and developing products that keep the United States at the forefront of life sciences R&D.
- The United States faces unprecedented challenges to its role as a world leader in medical innovation. Countries like China, India, and Korea are aggressively increasing their R&D capabilities, particularly in the life sciences fields. Businesses in the United States face increasing costs, making it more and more difficult to compete in U.S. markets. Compared to 2008, the projected share of life sciences R&D performed in the United States in 2011 will decline relative to the rest of the world.
- Economists generally believe that companies do not invest optimally in R&D activities because the profits that companies receive for their products do not reflect the societal benefits from R&D. Thus, to achieve these optimal levels of R&D investment, either the Federal government must contribute directly to R&D activities or the return on investment for companies engaging in R&D must reflect not only the company benefits, but also the societal benefits, of R&D activities. Tax incentives are one way of increasing a company's return on investment for R&D activities.
- Changing the tax incentives offered to life sciences R&D in the United States could help to reduce the shifting of life sciences R&D spending to other countries. The proposed legislation would do this by offering companies a choice between an enhanced R&D tax credit for life sciences R&D and a dividends-received deduction for foreign earnings returned to the United States and invested in life sciences R&D. The proposed tax incentives would be available through 2015 and would be limited to a maximum amount of R&D spending each year of \$150 million per taxpayer. Small and mid-sized businesses comprise a substantial percentage of the companies benefiting from these tax incentives.
- Many of the country's most important medical innovations begin with small companies owned by scientists or engineers with an idea. The life sciences industry includes approximately 15,800 small and mid-sized businesses (98 percent of all businesses in the industry) and 57 percent of businesses conducting life sciences research in the United States have annual revenues of less than \$1 million. Small and mid-sized life sciences businesses tend to be much more research intensive (i.e., spend more as a percentage of sales on R&D activities), produce at least 13 times more patents per employee than larger businesses, and employ, on average, more scientists and engineers than larger businesses.
- These two temporary tax incentives will stimulate new life sciences R&D investment in the United States. This new investment has the potential to create an additional 683,000 (direct and indirect) jobs in the U.S. economy. In addition to jobs for such highly skilled workers as scientists and engineers, the indirect effects of this new investment will stimulate jobs in other sectors as well.

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