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January 22, 2007

Senator Max Baucus  
Chairman, Senate Finance Committee  
U.S. Senate  
Washington, DC 20515

Dear Chairman Baucus,

On behalf of the nearly 1,000 member companies of the Electronic Industries Alliance (EIA), I would like to thank you for your recent introduction of S. 41, the Research Competitiveness Act – a “next-generation” R&D tax credit – and for your continued support of a permanent and effective credit. We are grateful for all the work you did in the last Congress to ensure a seamless extension and crucial enhancements to the current credit, and we appreciate your innovation in looking at ways in which it can be made even more effective.

Permanence is a particularly critical feature to maximize the impact of the R&D credit. If there is any uncertainty regarding the availability of the credit, companies discount its value. This has the counterproductive effect of reducing the credit's benefit to the economy while not affecting the overall cost of the credit. In addition, some studies reveal that it may take up to five years for a company to fully adjust to a change in the after-tax cost of R&D, so a long-term focus is necessary to allow companies to fully change their investment behavior.

Since its enactment in 1981, the R&D tax credit has demonstrated that it is a powerful incentive for companies to increase research spending – and the companies within the information and communications technology (ICT) and electronics sector represented by EIA are among the most research-intensive and innovative in the world. With appropriate transition, your proposal of a 20% credit for U.S. research expenses exceeding 50% of a company's average expenses over the preceding three years would provide a substantial benefit, stimulating increased R&D and the creation of high-skilled U.S. jobs.

Again, thank you for the introduction of this important piece of legislation. It is critical for Congress to act this year before the current law expires, and EIA and its member companies strongly support a permanent and effective R&D credit.

Regards,

A handwritten signature in black ink that reads "Storme Street". The signature is written in a cursive, flowing style.

Storme Street  
Vice President of Government Relations  
Electronic Industries Alliance