

June 26, 2006

The Honorable Bill Frist
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Dennis Hastert
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable Harry Reid
Democratic Leader
Minority Leader
United States Senate
Washington, DC 20510

The Honorable Nancy Pelosi
Democratic Leader
Minority Leader
U.S. House of Representatives
Washington, DC 20515

Dear Speaker Hastert, Leader Frist, Democratic Leader Reid and Democratic Leader Pelosi:

On behalf of the companies represented by our organizations - and the U.S. workers they employ - we are writing to express our growing concern about the lack of a seamless extension of a strengthened Research and Development (R&D) tax credit.

The credit expired on December 31, 2005. Under GAAP rules, companies have had to report financial results and offer guidance about future performance assuming that the credit will not be seamlessly restored. This already is affecting market expectations and leaving many companies with unexpected shortfalls. Even more troubling, a gap in coverage would serve as a new tax on innovation in America.

Although promised in the tax reconciliation legislation, the strengthened R&D credit provisions were stripped from that measure. The unresolved status of the credit, combined with the nearly six months since the credit expired has created a sense of uncertainty about its short- and long-term stability. This failure to act is especially frustrating given the strong bipartisan support for a seamless and strengthened credit.

American businesses have relied on the credit to make responsible decisions about future research and development activities. At a time when many of our trading partners offer stronger and permanent or long-term credits, the on-again off-again nature of the U.S. credit and the failure to enact broadly supported provisions to make it more widely available threaten to undermine innovative research in our country. In the long-term, a gap in coverage could push future research projects overseas to avoid such uncertainties.

The benefits of research and development have been well documented. In the U.S., half of our economic productivity in the last half century is attributable to technological innovation and the science that has supported this innovation. The credit has had a significant positive impact on private sector research activity. Enactment of a seamless and strengthened R&D tax credit will allow companies to maintain American competitiveness. Just as importantly, it will demonstrate a clear congressional commitment to cutting-edge research in order to ensure continued U.S. economic strength and vitality.

Sincerely,

Aerospace Industries Association of America
American Chemistry Council
American Electronics Association
Biotechnology Industry Organization
Business Roundtable
Business Software Alliance
CTIA-The Wireless Association
Electronic Industries Alliance
Grocery Manufacturers Association
IEEE-USA
Information Technology Industry Council
IPC, Association Connecting Electronics Industries
Medical Device Manufacturers Association
National Association of Manufacturers
National Marine Manufacturers Association
National Tooling & Machining Association
Pharmaceutical Research and Manufacturers of America
Semiconductor Equipment and Materials International
Semiconductor Industry Association
Software & Information Industry Association
Software Finance and Tax Executives Council
TechNet
Telecommunications Industry Association
The Computing Technology Industry Association (CompTIA)
The Society of the Plastics Industry, Inc.
U.S. Chamber of Commerce
USTelecom Association