

Governor, Legislators Propose Doubling R&D Tax Credit for Small Businesses

Bipartisan bill encouraging additional entrepreneurship and innovation passes committee

Dover, DE – Having made fostering innovation a key part of his agenda to fulfill Delaware’s potential, Governor Markell today joined a bipartisan group of legislators in pushing to double the research and development tax credit available to small businesses.

House Bill 318, which passed the House Economic Development, Banking, Insurance, and Commerce Committee, would target the credit toward startups and small companies by directing additional support to companies with less than \$20 million in receipts. These businesses would be eligible for a research and development tax credit of up to 100 percent of the corresponding federal credit, while large companies would continue to qualify for up to 50 percent.

The legislation, sponsored by Representative Bryon Short (D-Brandywine Hundred) and Senator Robert Venables (D-Laurel) with Republican co-sponsors in both chambers, would not cost the state additional revenue because the total amount of state funding for the tax credit would remain at \$5 million.

“To reach our state’s potential, we must ensure our entrepreneurs have the opportunity to build on our state’s rich history of invention,” said Markell. “By refocusing Delaware’s research and development tax credit toward smaller businesses and startups, this bill incentivizes innovation and growth in emerging industries that are vital to the state’s job growth and overall economic future. I’m hopeful that with the strong bipartisan support we have for this proposal, we

can make it a reality during the current legislative session.”

Currently, every businesses that conducts research and development in Delaware calculates its credit in the same manner, whether the firm is a startup or a multinational. A company is given a share of the \$5 million allocated for the tax credit – up to 50 percent of the federal tax credit they receive – depending on the number of companies that apply in a given year. HB 318 will ensure that small companies receive a larger share.

“This is a great bill that illustrates the governor’s and the legislature’s commitment to making Delaware the best state in the nation to start and grow a business,” said Rep. Short. “By modernizing the R&D tax credit to better support the growth of small businesses, Delaware will be enhancing its competitiveness with other states and increasing the opportunity for job growth.”

“This legislation has the potential to create high quality jobs and to help Delaware small businesses, both of which the state needs badly,” said Senator Venables. “It should help to improve the business climate both for existing businesses and as a way of attracting new ones.”

Studies have demonstrated the effectiveness of state tax credits for research and development, including in California and Illinois where the policy has encouraged additional R&D activities, attracted companies from other states, and boosted the high-tech sector.

Support from Delaware Innovators and Business Leaders:

Bryan P. Tracy, Ph.D, CEO & Lead Scientist, Elcriton, Inc.:

“An R&D tax credit targeting small businesses is critical to entrepreneurship because it reduces the risk of trying something new. Technology ventures derive the majority of their value from successful R&D, which is high risk and

costly. Laws that fairly assist in mitigating that risk play a large role in an entrepreneur's decision on where to perform their R&D. Accordingly, I believe this is positive approach for stimulating more entrepreneurship, and welcoming high-growth potential companies to Delaware."

Dan Freeman, Ph.D., Director, Horn Program in Entrepreneurship:

"Delaware technology companies compete in highly competitive global markets where R&D velocity is critical to success. Maintaining velocity is particularly challenging for small companies, which are often forced to choose efficiency over speed due to funding constraints. This bill essentially decreases the net cost of R&D for smaller companies, thereby allowing them to do more, faster. Therefore, it represents an important step forward for innovation and entrepreneurship in Delaware."

Mike Bowman, Director, Delaware Small Business & Technology Development Center

"The R&D tax credit can be of great help to early stage scaling DE technology based companies and attractant to others. These companies depend upon research for their market differentiation and it is their dominant cost of doing business. Kauffman studies have shown this to be a strong suit for DE."

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