Information Technology & Innovation Foundation

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Guiding Principle:

Government Subsidy Needed to Correct Market Failure to Adequately Invest in Research



Rest of the Economy

Business Conducting Research

Definition of Qualified Research (1986 Act)

(1) Must meet definition of research elsewhere in Code (for expensing);

(2) Must **discover information** technological in nature;

(3) Contribute to development of a new or improved business component; and

(4) Must constitute elements of a process of experimentation.

1998 Proposed and January 2001 'Final' Regulations: "the discovery test"

"the term **discovering information** means obtaining knowledge that exceeds, expands or refines the common knowledge of skilled professionals in a particular field of technology or science."

New Proposed Regulations in December 2001 and New Final Regulations in 2004: "the discovery test": Repealed

Require only that research activity intend to eliminate the *uncertainty of the taxpayer* about the development or improvement of a business component.

U.S Research in 2010

NSF Data:	
Total Research	**$407.7 billion**
Business Funded	$249.2 billion
Federal Funded	$127.8 billion
Other	$30.7 billion
IRS Data:	
Research Credits	**$8.5 billion**