

Testimony of Brian Kennedy, SVP for Operations and Government Affairs

Pittsburgh Technology Council

In Support of Legislation to Expand the Research and Development Tax Credit

Good afternoon. Thank you for the opportunity to testify on behalf of the Pittsburgh Technology Council regarding this critical legislation to expand Pennsylvania's Research and Development Tax Credit.

Before I discuss why this expansion is essential, I want to thank this committee and the General Assembly for the important tax reforms you have enacted in recent years. The improvements to the Corporate Net Income Tax and the reforms to our Net Operating Loss carry forward provisions represent a genuine commitment to making Pennsylvania more competitive. We are seeing the results. We are truly moving towards a more competitive future, and we are grateful.

The R&D Tax Credit expansion before you today is the next step in that journey. This legislation will double the available credit from \$60 million to \$120 million and, critically, it will increase the small business allocation from \$12 million to \$24 million. This matters profoundly.

Why the R&D Tax Credit Matters

The R&D Tax Credit is one of the few economic development tools that benefits companies of all sizes, from pre-revenue startups in the life sciences to established advanced manufacturing firms. For larger companies, the credit reduces tax liability and frees resources to re-invest in research and development. For small firms, especially the ones that are pre-revenue, the ones taking enormous risks on breakthrough innovations, the ability to sell these credits means access to much-needed capital to commercialize their discoveries right here in Pennsylvania.

Let me give you the scale of what we're talking about. According to our most recent State of the Industry Report, the Pittsburgh region alone has 241,804 technology workers earning nearly \$100,000 per year, far higher than the regional average wage. Regional technology and manufacturing firms generate \$24 billion in annual payroll representing over 28 percent of the region's total wages.

Life sciences is where the opportunity, and the challenge, becomes most acute. These are companies doing something remarkable: they are literally working to cure cancer and treat diseases that have plagued humanity for generations. Two-thirds of these firms employ fewer than 10 people. They are small businesses betting everything on innovation.

In the Pittsburgh region, life sciences has grown 32 percent in the number of establishments over a decade, and payroll has jumped 33.7 percent. The expansion of the R&D Tax Credit will absolutely help these companies. But I need to address something equally important, a hidden penalty in Pennsylvania's tax code that is actively discouraging job creation in research and development.

The Critical Issue: Misalignment on R&D Expensing

Federal law allows companies to deduct wages paid to employees engaged in research and development as ordinary business expenses. This is sensible policy. It recognizes that the salary you pay to a scientist, an engineer, a researcher is a legitimate cost of doing business.

Pennsylvania doesn't align with federal law. **By barring companies from writing off salaries paid to employees engaged in R&D activities in the same year in which they occur, Pennsylvania creates a perverse and damaging incentive structure.** It's the kind of thing you might do to companies that are making products that are harmful to society, not to companies working to cure some of our most challenging diseases. Let me explain what this means in practical terms:

Imagine a small biotech company in Pennsylvania. They have found early success with a promising treatment. They want to expand their R&D team and they want to hire more scientists, more researchers, more people working toward FDA approval. This is job creation. This is economic growth. This is the future.

But here's what happens under current Pennsylvania tax law: **For every person you assign to R&D, you increase your effective tax rate.** You cannot deduct their salary as a business expense (in the year that they occur) the way you can almost everywhere else in America. That means the same company, with the same profits, pays more in taxes to Pennsylvania simply because they chose to hire an additional researcher.

This is not tax incentive policy. This is a tax penalty on innovation. **This is the state borrowing money from small businesses...Money the state doesn't need this year from companies who are literally working to cure cancer.**

How Many Jobs Is This Costing Pennsylvania?

Think about the cascading impact. When you increase the effective tax rate for hiring R&D talent, you make Pennsylvania less competitive. A company deciding where to locate its research center or where to expand R&D operations now faces a hidden tax on doing so here. They will expand in Ohio. They will expand in New Jersey. They will expand somewhere that doesn't penalize them for investing in research.

A Comprehensive Approach

The R&D Tax Credit expansion before you is essential and necessary. It will work. Combined with expensing reforms, it can help position Pennsylvania at the forefront of R&D in the life sciences sector.

This General Assembly has already shown its commitment to competitiveness through the CNI and NOL reforms. This legislation is the next logical step. We urge you to pass it, and we look forward to working with you on the expensing issue as we continue this important journey toward a more competitive future for Pennsylvania.

Thank you.

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