Pennsylvania Institute of Certified Public Accountants

(PICPA)

Testimony

by

Mark Balistrieri, CPA

and

Ben Fortner, J.D.

to

Senate Institutional Sustainability & Innovation Committee

Public Hearing on

Research & Development Tax Credit Program

May 7, 2026

Chairman Farry, Chairman Kearney, and members of the Senate Institutional Sustainability & Innovation Committee, thank you for the opportunity to provide testimony on Pennsylvania's Research and Development Tax Credit program. On behalf of Pennsylvania's certified public accountants (CPAs), I appreciate your continued focus on policies that promote economic growth, innovation, and competitiveness within the Commonwealth.

Pennsylvania's Research & Development (R&D) Tax Credit program reflects a clear and commendable policy goal: incentivizing innovation, strengthening in-state investment, and enhancing long-term economic competitiveness. As trusted advisers to thousands of businesses across the Commonwealth, CPAs see firsthand both the value of this program and its current limitations.

My name is Mark Balistrieri, CPA, and I am the director of state and local tax with Schneider Downs in Pittsburgh. Since 1956, Schneider Downs has been providing accounting, tax, consulting, and business advisory services through innovative thought leaders who deliver their expertise to meet the individual needs of each client.

I am joined by Ben Fortner, J.D., who is the leader of R&D Tax Credit practice at RKL. RKL is a leading advisory firm offering tax, accounting, financial management, workforce strategies, private wealth, and technology solutions to its clients across Pennsylvania and all 50 states. Ben leads a team of dedicated professionals responsible for conducting R&D Tax Credit studies for a variety of industries and company types.

The PICPA is a professional CPA association of nearly 18,000 members working to improve the profession and serve the public interest in Pennsylvania. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States, as well as one of the largest. Membership includes practitioners in public accounting, education, government, and industry.

CPAs serve as trusted advisers to businesses of all sizes and across all industries. In that role, we work directly with taxpayers to evaluate, apply for, and utilize the R&D Tax Credit. This perspective provides us with a clear view of both the strengths of the program and the practical challenges that limit its effectiveness.

From a practitioner's perspective, the issue is not whether the R&D Tax Credit works in theory. It does. The issue is that, in practice, it is too constrained, too complex, and too diluted to consistently achieve its intended impact.

At its core, Pennsylvania's R&D Tax Credit is a well-conceived and worthwhile incentive. However, in its current form, the program is often too limited in scale, too complex in administration, and too restrictive in design to consistently influence business behavior in the way policymakers intend.

General Observations

Based on client experiences, several themes consistently emerge:

- The credit is frequently **too small to serve as a meaningful incentive** due to limited funding.

- The **calculation methodology excludes many otherwise eligible companies**.
- The **application process is overly burdensome**, discouraging participation.
- Certain structural features allow for **uses of the credit that do not align with its intended purpose**.

As a result, businesses often view the credit as uncertain, administratively costly, and of limited value — factors that diminish its effectiveness as an economic development tool.

Recommendations

1. Increase the Overall Funding of the Credit

Under the current program, most applicants receive only **10% to 30% of the credit amount requested**. This significantly reduces the incentive value of the program.

From a CPA's perspective, when a credit is heavily prorated and unpredictable, it becomes difficult to incorporate into business planning and investment decisions. Increasing the total funding available would:

- Enhance the reliability of the credit, and
- Increase the percentage of credits awarded to applicants, potentially to **20% to 60% of requested amounts**.

2. Improve the Credit Calculation Methodology

Pennsylvania's current methodology compares current-year R&D expenses to the **average of the prior four years**. This structure can unintentionally penalize companies with fluctuating or growing R&D investments.

For example, a single year of significant R&D spending may prevent a company from qualifying for the credit for several subsequent years.

By comparison, the federal R&D tax credit:

- Uses a **three-year lookback period**, and
- Applies a **50% scaling factor** to the base amount.

This approach allows more companies with consistent R&D activity to qualify.

Recommendation: Consider adopting a similar approach, such as applying a scaling factor to the base calculation, to better reflect ongoing investment patterns and expand eligibility.

3. Streamline the Application Process

The current application process can be complex and resource intensive.

CPAs regularly advise clients on whether the benefit of the credit justifies the administrative burden. In some cases, businesses choose not to apply due to the time and cost involved, particularly requirements such as detailed subcontractor reporting.

At least one multinational company with a significant presence in Pennsylvania opted out of the program for this reason.

Recommendation: Simplify and modernize the application process to reduce compliance costs and encourage broader participation.

4. Refine Eligibility and Credit Utilization Rules

To ensure the program achieves its intended purpose:

- Consider limiting the credit to businesses that can reasonably utilize it within the allowable carryforward period.
- Evaluate restrictions on the reassignment of credits to prevent their use primarily as a financing tool rather than as an incentive for innovation.

Tax credits are most effective when they directly support economic activity rather than functioning as transferable assets.

5. Update the Definition of "Small Business"

The current definition of a Pennsylvania small business – entities with **$5 million or less in total assets** – is outdated and excludes many growing companies.

This is particularly important because small businesses:

- Receive a higher credit rate (20% vs. 10%), and
- Often receive a significantly larger percentage of their requested credit.

Recommendation: Increase or index the asset threshold to better reflect current economic conditions and expand access to the enhanced small-business benefit.

6. Align the Credit with State Economic Priorities

To maximize its impact, the R&D Tax Credit should be aligned with:

- The Commonwealth's long-term economic development strategy, and
- Legislative priorities for targeted growth industries.

A more strategic allocation of credits can improve the return on investment for the Commonwealth.

Conclusion

Pennsylvania's R&D Tax Credit program has a strong foundation and serves an important policy objective. However, targeted reforms are necessary to ensure the program operates as an effective and reliable incentive.

From the perspective of CPAs working directly with taxpayers, the path forward is clear:

- Increase the **scale** of the credit
- Improve its **accessibility**
- Align its **structure with real-world business practices**

These changes would strengthen the program, encourage greater participation, and enhance Pennsylvania's ability to compete for innovation-driven investment.

Thank you for your time and consideration. We would be happy to answer any questions.