

**TESTIMONY OF BONNIE STEWART
VICE PRESIDENT OF GOVERNMENT AFFAIRS, CBIA
BEFORE THE
COMMERCE COMMITTEE
HARTFORD, CT
MARCH 13, 2015**

Testifying in Support of SB 303 An Act Extending The Research And Experimental Expenditure Tax Credit To Pass-Through Entities

Good morning. My name is Bonnie Stewart and I am Vice President of Government Affairs at the Connecticut Business and Industry Association (CBIA). CBIA represents more than 10,000 employers throughout Connecticut ranging from one-person businesses to large corporations. Eighty-five percent of our members are small employers with 50 or fewer employees.

CBIA supports and urges the adoption of **SB 303, An Act Extending the Research and Experimental Expenditure Tax Credit to Pass-Through Entities**. This bill would greatly assist many small and midsize businesses in Connecticut. Increasingly, smaller businesses are being structured as S Corporations, Limited Liability Corporations, and Limited Liability Partnerships, collectively known as pass-through entities. The proposed modification would allow these entities, which pay their business taxes through the personal income tax, to utilize the Research and Development (R&D) tax credits that C Corporations have had access to since the mid-1990s.

Research and development (R&D) is crucial to both the short-term vitality and the long-term health of any business. R&D leads to new products, additional uses of existing products, greater efficiency, enhanced job creation and retention, and the promise of continued growth. Connecticut's economic well-being is strongly tied to innovation and sustained business growth, and measures such as this bill will contribute to the state's recovery and prosperity.

The R&D tax credit is the state's primary tax policy fostering innovation and innovation, and driving sustainable job growth. The R&D process is long and costly. Therefore R&D tax credits are critical to locating such facilities in the state.

Connecticut Industries	Connecticut R&D Cycle	Connecticut Manufacturing Cycle
Pharmaceuticals	7-15 years	7-8 years
Aerospace	5-20 years	30+ years
Submarines	5-7 years	30+ years

From the chart above, one can see that the R&D phase of a product is rarely, if ever, short. Companies are usually in the research and experiment stage for years.

- The average research cycle for the pharmaceutical industry is seven to 15 years. New drugs take years from discovery of the initial molecule to a marketable medication. Even after all that time, it can be years before the company begins to earn a profit on the product.
- The aerospace industry has an even longer R&D time frame, running from five to 20 years for most aerospace products.

As the personal income tax rate for investors and small employers has risen in years, so too has the need for credits to encourage investment in Connecticut. At one time there was a substantial difference between the tax rate C Corporations and pass-through entities paid, but that has changed. Extending the R&D tax credit to pass-through entities is both logical and necessary in order to keep the state's small and midsize businesses so they can invest and expand in Connecticut.

Please **support SB-303**.

Thank you for your consideration.