Testimony Presented to the
Commerce Committee of the Connecticut General Assembly

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Paul R. Pescatello, JD, PhD

S. B. 399
An Act Concerning the Research and Development Tax Credit

H.B. 5574
An Act Concerning Stranded Research and Development Tax Credits

Good afternoon Senator Hartley, Representative Perone, Senator Crisco, Representative Vargas, Senator Frantz, Representative Camillo, members of the Commerce Committee.

I'm Paul Pescatello, Senior Counsel and Executive Director of the Connecticut Bioscience Growth Council.

I am also President/CEO of the New England Biotechnology Association and Chair of We Work for Health Connecticut.

The Connecticut Bioscience Growth Council is a committee of the Connecticut Business and Industry Association's biotech and biopharma members.

The Bioscience Growth Council was formed as a means to foster collaboration both among Connecticut biotech and biopharma companies themselves and, just as importantly, *with* our state. As you know, Connecticut – *this* General Assembly – has chosen wisely to invest in the life sciences as a foundation for Connecticut's 21st century economy and as a means to create a broad spectrum of jobs.

Last week's ribbon cutting for Alexion Pharmaceutical's world headquarters in New Haven – with labs and offices for over 1,000 employees – the strides we have made in regenerative medicine and stem cell research, and the research and economic development already being accomplished by Jackson Labs, name only a few of the dividends generated by this Connecticut investment.

I am here today to support Senate Bill 399, An Act Concerning the Research and Development Tax Credit.

In order to harvest the dividends promised by Connecticut's investment in the life sciences – the good jobs and the powerful and hugely positive ripple effect of private sector biopharma investment across the Connecticut economy – recognizing the importance of research and development is critical. Getting research and development policy "right" is key.

More than any other industry, the life sciences and biopharma companies are defined by research and development.

It takes about 15 years and $2.5 billion to bring a new medicine from concept to the finish line of an FDA approved product available on pharmacy shelves. It is important to understand that most projects are discarded along the research and development pathway. Most great research leads to new insights and further research, but only rarely does it lead to new medicines. Conservatively estimated, something on the order of only 1 out of

1,000 research projects become an FDA approved medicine. Nevertheless, the state where all this research occurs obtains the benefit of all the research investment dollars being circulated throughout its economy, whether that research results in profitable new medicines, or not.

Since biopharma is about research and development it is not difficult to see that scientists and entrepreneurs and investors – existing and start-up companies/employers – choose where to do their research and development, where to set up their essential operations, in states that recognize the value of all that comes with the commitments and risks inherent in huge research and development spends.

For state government the means to recognize the value of research and development spending is through the tax code.

The incentive is: do your research and development here, make your vast research and development investments here, take your risks here and we will give you a credit against *future* income.

The bargain is, the benefit to the state is, we get the benefit *now* of all those investment dollars infused in our economy, we receive all the income and property and sales taxes paid by biopharma employees for a credit against *future* income.

It cannot be underscored boldly enough: research and development tax credits are earned by companies only after they've made an investment, after they've spent funds in Connecticut.

What have we done in Connecticut? We've created a set of research and development tax credits that are competitive with other states that attract biopharma companies. But we raise the issue of changing research and development tax policy almost every year. And we have in fact proceeded, first, to scale back the research and development tax credit to 70% of its stated statutory value and then, last year, to further reduce the research and development tax credit to 55% of its value.

This is counterproductive on several fronts. Scaling back an agreed upon policy diminishes the value of the policy and trust in the policy. It means companies choose another state over Connecticut because they don't believe the stated value of the credit is durable, is real. It means we do not reap the benefit of all the biopharma research and development investment that we could.

As others have done, we provide along with the Bioscience Growth Council's testimony, the Connecticut Department of Revenue Services' analysis that shows the return on investment in research and development for the state is 30 to 1. That is, for every one dollar of research and development tax credit, $30 is invested in Connecticut. That's very effective policy. Why would we weaken it?

The Bioscience Growth Council asks that you restore the research and development tax credit as Senate Bill 399 would do and, as well, make a commitment to consistency – to be confident of the value of our research and development policy and give confidence to companies that our policy is settled.

Today our policy is so unsettled that companies struggle with whether they can take our research and development credits into account as they project the cost of doing business in Connecticut. Many are told by investors and their accountants that they cannot take our credit into account due to uncertainty over the credits remaining intact over the short-run, much less the long run.

A corollary to this call for consistency is that restoring research and development tax credits this year makes little sense if it is not accomplished as part of a broader effort to bring order and stability to Connecticut's overall fiscal outlook.

Restoring Connecticut research and develop tax credits this year only to scale them back next year in order to balance the state budget would amplify, not quiet, the sense that Connecticut tax policy is unstable, always in flux.

At the Bioscience Growth Council we are asked often what can Connecticut do to encourage existing biopharmas to expand here, out-of-state biopharmas to move to Connecticut and start-up biopharma to set up shop in Connecticut.

Two things drive these decisions. First, the strength of the local research institutions. We are fortunate to have such strength in Yale, UConn and Jackson Labs.

The second driver of biopharma research and development business activity is access to investment capital. As I've noted, biopharma uniquely consumes vast amounts of research and development investment dollars. Biopharmas are constantly searching for additional capital. Research and development tax credits essentially extend capital budgets and help biopharma companies to fund their research and development projects. As a form of capital enhancement, research and development tax credits are a powerful incentive to draw biopharma research and development to Connecticut.

A brief comment on House Bill 5574, An Act Concerning Stranded Research and Development Tax Credits.

HB 5574 would allow companies holding earned but "stranded" research and development tax credits – credits which they are otherwise unable to use – to exchange the credits for payments to support capital projects and employment.

As noted in our testimony on research and development tax credits, any policy that promotes research and development in our state is a powerful economic driver and should be encouraged.

I would be happy to answer any questions you may have or expand upon any points made in my testimony.

Thank you.