**Testimony of Richard A. Bendis, President and CEO, Innovation America**
**Before House Committee on Small Business**
**Subcommittee on Contracting and Technology**

**Thursday, July 9, 2009**
**10:00 AM – 2360 Rayburn HOB**
**Time Allocated 5 minutes**

Chairman Nye and Members of the Subcommittee:

Good morning. My name is Rich Bendis and I am the President and CEO of Innovation America, a national, non profit Innovation Intermediary focused on accelerating the growth of the entrepreneurial innovation economy in America. I am also a long time member of the American Society of Mechanical Engineers (ASME), a founding Board member of both the National Association of Seed and Venture Funds (NASVF), and the State Science and Technology Institute (SSTI), and a former technology entrepreneur who has benefited from R&D Tax Credits.

I want to thank this subcommittee for providing me the opportunity to comment on the importance of extending and making permanent the Research and Experimentation Tax Credit. Innovation America, ASME, and NASVF support this extension.

Innovation America also supports the R&D Credit Coalition's recommendations of a permanent R&D tax credit at a commensurate rate for all companies; a 20 percent simplified credit and an extension of the traditional credit.

2600 Centre Square West 1500 Market Street Philadelphia, PA 19102
Phone (215) 496-8102 rbendis@bendisig.com Fax (215) 977-9618
www.innovationamerica.us

The National Academies have cautioned that “without high-quality, knowledge-intensive jobs and the innovative enterprises that lead to discovery and new technology, our economy will suffer and our people will face a lower standard of living.”

Since 1981, when the federal R&D tax credit was enacted, the U.S. Government sought to encourage businesses to look to the future and invest in long-term, high-risk, high-dollar investments that would create high-wage jobs. The R&D tax credit helps to lower the cost of these high-risk investments that are necessary to keep American companies competitive and foster growth in the overall economy especially during these challenging economic times.

The National Academies has cautioned that “without high-quality, knowledge-intensive jobs and the innovative enterprises that lead to discovery and new technology, our economy will suffer and our people will face a lower standard of living.” Our trading partners around the globe recognize the long-term value of R&D and have moved aggressively to implement generous and permanent tax policies that attract these vital investments to their shores.

In addition to the Federal R&D tax credit program, at least 38 states utilize tax credit programs as economic development incentives. A research paper

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published in Economic Development Quarterly "In State R&D Tax credits and High-Technology Establishments" concluded that state R&D tax credit programs have "significant and positive effects" on the number of high tech establishments in a state.  R&D tax credit programs vary from state to state as some offer "refundable" credits, set up that the amount provided to a company utilizing the R&D tax credit may exceed that company's actual state income tax liability.  Some states allow credits to carry forward to future years, while others set percentage caps on the tax liability that can be applied to credits.   Additionally some states allow for transferability or sale of the credits in the event the company has no tax liability.

I also believe that while the R&D tax credit program extension is a critical component of the U.S. innovation portfolio of programs, it is not the only area that this subcommittee should be concerned with.

Job creation is one of the highest priorities this Administration and Congress has, especially those created by innovative entrepreneurial companies.  If recent history is any indication, for three years following both the 1990-91 and 2000-01 recessions, small businesses of less than 20 employees were responsible for over 100% of the net new job growth in America. Unfortunately, what worked after the last two recessions might not work as well today due to the fragile nature of our financial markets.

The "Valley of Death" which represents the entrepreneurial funding gap between $500,000 and $5,000,000 has gotten wider and deeper. Venture Capitalists average investment last year was $8.3 million and they had their lowest investment quarter in 13 years last quarter. Angel Investors last year invested 26 percent less than the prior year due to their own personal financial crisis and 47 out of 50 states have budget problems that will negatively impact their entrepreneurial support programs. For the first time in U.S. history we now have a "Perfect Storm" affecting our Innovation economy.

In December of 2008, we met with members of the Obama Transition Team and presented a proposal for Creating a National Innovation Framework. The details of this proposal have also been submitted to this subcommittee in a white paper that was published by Science Progress. In summary, we recommend that a National Innovation Seed Capital Jobs Fund of Funds be created and we support the permanent reauthoritization of the SBIR and STTR programs. We also recommend that an Integrated National Innovation Strategy be developed and that the Administration prioritize Innovation as part of their National agenda. Time does not permit a detailed discussion of this Innovation strategy, but it is complimentary to the R&D tax credit discussion that has occurred today in this subcommittee hearing.

In closing, I strongly support the permanent extension of the R&D tax credit program as it is an extremely important component of America's Innovation program portfolio.

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I would like to thank you for the opportunity to present my view to this subcommittee and request that my written statement as well as other supporting documentation, be submitted into the record.

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