

EMBARGOED UNTIL 9:45 AM, FRIDAY, MAY 21, 2010

ADMINISTRATION RELEASES GUIDANCE FOR \$1 BILLION TAX CREDIT UNDER AFFORDABLE CARE ACT TO SUPPORT BIOMEDICAL RESEARCH BY SMALL FIRMS

New Therapeutic Discovery credit, created under the Affordable Care Act, will support research with potential to produce new therapies, create high-quality jobs.

May 21, 2010

“This new tax credit will help advance research to find life-saving treatments and help U.S. companies lead the way in innovative medical discoveries.” – *Secretary Tim Geithner*

Key Facts about the Therapeutic Discovery Tax Credit

- *The tax credit is effective immediately and covers up to 50 percent of the cost of qualifying biomedical research.*
- *The credit will be allocated among projects that show significant potential to produce new and cost-saving therapies, support good jobs, and increase U.S. competitiveness.*
- *The credit is only available to smaller firms: those with 250 workers or fewer.*
- *Firms can opt to receive a grant instead of a tax credit, so startups that are not yet profitable can benefit as well.*

Key Elements:

- **Substantial Benefit.** The credit is worth up to 50 percent of the cost of qualifying investments, up to a maximum credit of \$5 million per firm and \$1 billion overall.
- **Effective Immediately.** To provide an immediate boost to U.S. biomedical research and the small businesses that conduct it, the credit is effective for investments made in 2009 and 2010.
- **Supports Research that Saves Lives, Reduces Health Care Costs.** The credit is targeted to projects that show significant potential to produce new therapies, address unmet medical needs, and reduce the long-term growth of health care costs. In addition, special consideration is given to projects that advance the goal of curing cancer within the next 30 years. Breakthroughs in biotechnology have helped to significantly reduce mortality from many cancers. For example, the invention of drugs like Herceptin cut the chance of breast cancer recurrence in half compared to chemotherapy alone for patients with breast cancers with the human epithelial growth factor receptor-2 (HER-2).
- **Targeted to Create High-Quality Jobs, Advance U.S. Competitiveness.** In addition to supporting biomedical research to find life-saving treatments, the credit’s allocation will also take into consideration which projects show the greatest potential to create and sustain high-quality, high-paying jobs in the United States, and to advance our competitiveness in the fields of life, biological,

and medical sciences. Today, the biotechnology industry employs 1.3 million workers, and the industry continues to be a key growth engine for our economy.

- **Only Smaller Firms Can Participate.** Qualifying firms must have 250 employees or fewer.
- **Grant Option Supports Startups.** Because biomedical research can take many years to turn a profit, newer firms may be unable to take advantage of a tax credit that offsets income tax liability. To ensure that these firms can benefit, an eligible firm can opt to take the credit as a grant instead of a tax credit

Benefit of Therapeutic Discovery Tax Credit: Two Cases

Example 1: Pharmaceutical Firm Developing Alzheimer's Treatment

Francine's Pharmaceuticals:

- ***Employees:*** 150
- ***Qualifying Project:*** Developing drug to meet unmet need for treatments for Alzheimer's disease, which could also reduce health care costs and increase U.S. competitiveness.
- ***2009 Investment in Qualifying Project:*** \$3 million
- ***2010 Investment in Qualifying Project:*** \$3 million

Tax Credit for 2009: Up to \$1.5 million

Tax Credit for 2010: Up to \$1.5 million

Total Therapeutic Discovery Tax Credit: Up to \$3 million

Example 2: Biotechnology Firm Developing Cancer Cures

Bob's Biotech:

- ***Employees:*** 35
- ***Qualifying Project:*** Performing research that could contribute to curing cancer, as well as potentially create high-quality U.S. jobs.
- ***2009 Investment in Qualifying Project:*** \$1 million
- ***2010 Investment in Qualifying Project:*** \$2 million
- ***No tax liability in 2009 or 2010***

Grant for 2009: Up to \$500,000

Grant for 2010: Up to \$1 million

Total Therapeutic Discovery Tax Credit Grant: Up to \$1.5 million

Additional Details Included in the Guidance:

- **Application Period Opens June 21.** The guidance describes the process by which firms can apply to have their research projects certified as eligible for the credit. The formal application window will extend from June 21 to July 21, 2010. Applicants will receive a determination no later than October 29, 2010.
- **HHS to Evaluate Projects for Therapeutic Potential.** As part of the review process for research projects, the Department of Health and Human Services (HHS) will evaluate each project for its

potential to produce new therapies, address unmet medical needs, reduce health care costs or advance the goal of curing cancer. Only projects that show a reasonable potential to meet one or more of these goals will be certified as eligible for the credit.