

Before The Finance, Revenue, and Bonding Committee

March 9, 2015

Testimony of CURE (Connecticut United for Research Excellence)

Chairman Fonfara, Chairman Berger, Members of the Finance, Revenue, and Bonding Committee, Ladies and Gentlemen:

My name is Anthony Sabatelli. I am a partner with the intellectual property law firm of Dilworth IP in Trumbull. I am testifying today on behalf of CURE, Connecticut United for Research Excellence, where I chair CURE's Government Affairs Committee. CURE serves the bioscience cluster of Connecticut.

Governor Malloy's proposal to reduce the amount of tax credits that businesses can claim against their state tax liability would significantly affect the ability of biotechnology and pharmaceutical companies to attract and utilize research and development funding in Connecticut. The Governor's proposal would repeal Connecticut General Statute Section 12-217zz, and would replace it with provisions drastically reducing the tax credit from 70 to 35 percent of the tax due for 2015. Other tax credit reduction amounts are also set forth for subsequent years.

Research and development funding is critical for our economy: it spurs innovation, results in productivity gains, and leads to job creation. However, research and development funding is scarce, especially for early-stage companies, including pre-clinical biotechnology companies. Therefore, research and development tax credits, which leverage the investments made in biotechnology and pharmaceutical companies, are a competitive necessity. Even though many early stage companies do not yet have products or much taxable income, the tax credits represent an important incentive for their future.

Connecticut has built a tax policy and a national reputation based upon stimulating research and development for biotechnology companies. This competitive edge for Connecticut would be lost as a result of the Governor's proposal. Companies often make decisions as to where to locate, expand, and invest based on the availability of such tax credits. Limiting the ability of businesses to utilize research and development credits sends the wrong message to biotechnology and pharmaceutical companies currently conducting business in Connecticut, and also to those companies that Connecticut wishes to attract in the future.

In addition, tax credits have a significant impact on research and development spending. Currently, 40 states provide such tax credits. Consider our neighbor to the north, Massachusetts, with its research intensive economy. In Massachusetts, unused research credits can essentially be carried forward forever. This ability to carry forward is extremely important for early stage companies, and their investors, because such companies tend to be more heavily invested in research and often lack sufficient tax liability against which to apply these credits.

If signed into law, the Governor's proposal would discourage innovation, reduce jobs, hinder long-term economic growth, and have a chilling effect on investment in Connecticut. Furthermore, the proposal would damage Connecticut's business reputation, which the State has worked so hard to improve. CURE strongly urges the Governor to eliminate this proposed change to the 2015 budget which would reduce the research and development tax credit.

Thank you.

Anthony D. Sabatelli, PhD, JD
Chair, Government Affairs Committee
CURE (Connecticut United for Research Excellence)