

Generation 1: Adoption

The Economic Recovery Act of 1981 originally established the R&D tax credit for companies developing new products and processes. An important aspect of the new legislation was the "Discovery Test." The taxpayer had to prove sufficient innovation by IRS standards. Broadly, it required "revolutionary" research activities "to obtain knowledge that exceeds, expands or refines the common knowledge of skilled professionals in a particular field of science or engineering."

The Economic Recovery Tax Act of 1981	Originally adopted the federal R&D tax credit. Effective 7/1/81 through 12/31/85.
The Tax Reform Act of 1986	Extended the R&D tax credit, effective through 12/31/88.
The Technical and Miscellaneous Revenue Act of 1988	Extended the R&D tax credit, effective through 12/31/89.
The Omnibus Budget Reconciliation Act of 1989	Extended the R&D tax credit, effective through 12/31/90.
The Revenue Reconciliation Act of 1989	Clarified that research expenses are deductible under section 174 only to the extent that they are reasonable under the circumstances.
The Omnibus Budget Reconciliation Act of 1990	Extended the R&D tax credit, effective through 12/31/91.
The Tax Extension Act of 1991	Extended the R&D tax credit, effective through 6/30/92. After two failed bills to extend the credit were vetoed by the President, the credit expired 6/30/92.
The Omnibus Budget Reconciliation Act of 1993	Retroactively extended the R&D tax credit, effective 7/1/92 through 6/30/95. Once again, Congress failed to extend the R&D tax credit which expired 6/30/95.
The Small Business Job Protection Act of 1996	Retroactively extended the R&D tax credit, effective 7/1/96 through 5/31/97, leaving a 1 year gap in the R&D tax credit.
The Taxpayer Relief Act of 1997	After another expiration, retroactively extended the R&D tax credit effective, 6/1/97 through 6/30/98.
The Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1998	Extended the R&D tax credit, effective through 6/30/99.
The Ticket to Work and Work Incentives Improvement Act of 1999	Retroactively extended the R&D tax credit, effective 7/1/99 through 6/30/04.

Generation 2: Redefinition & Expansion

Starting in 2001, despite little change in the legislation, the R&D tax credit went through a dramatic redefinition and expansion period as a result of multiple Treasury Decisions and regulations. The primary modifications made the R&D tax credit, "available where the technological advance sought is evolutionary, where the taxpayer is not the first to achieve the advance, or where the taxpayer fails to achieve the intended advance." This shift effectively made the Discovery test optional ; research and development no longer had to be revolutionary or "New to the World" greatly expanding the industries and companies that could qualify for the credit. The credit was redefined and focused on the R&D of specific business components comprising of: products, processes, software, techniques, formulas and inventions. Any qualifying R&D activities had to pass the "4-Part Test."

The Working Families Tax Relief Act of 2004	Extended the R&D tax credit, effective through 12/31/05.
The Tax Relief and Health Care Act of 2006	Retroactively extended the R&D tax credit, effective 1/1/06 through 12/31/07.

Generation 3: Examination – Present

Starting in the mid-to-late 2000's, Congress began to pressure the Treasury Department to close the "Tax Gap". This shortfall, estimated at over \$450 billion in 2006, represents the difference in estimated tax liability and actual collected revenue. As a result of this initiative, the Large and Mid-Size Business (LMSB) department of the IRS created the Issue Tiering system, to identify and coordinate action across areas with "the highest compliance risk." The R&D tax credit was designated as a Tier 1 Issue and claims were heavily scrutinized, however, as of August 2012 the issue tiering system has been discontinued. Legislatively, minor changes were made to aid small businesses and the credit has been extended through 2013.

The Emergency Economic Stabilization Act of 2008	Retroactively extended the R&D tax credit, effective 1/1/08 through 12/31/09.
The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010	Retroactively extended the R&D tax credit, effective 1/1/10 through 12/31/11.
The Small Business Jobs Act of 2010	Eliminated Alternative Minimum Tax (AMT) for manufacturers with less than \$50 million in revenue.
The American Taxpayer Relief Act of 2012	Retroactively extended the R&D tax credit, effective 1/1/12 through 12/31/13.