The Daily Dish

# Targeted Pro-Growth, Public-Health Tax Policy

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**Eakinomics: Targeted Pro-Growth, Public-Health Tax Policy**

It is widely assumed that Congress will take additional action to support the economic recovery. But what *should* Congress do? At present, the U.S. economy needs new business startups to replace the thousands of small firms decimated by the COVID-19 recession, a way to operate those and existing firms safely, and progress on the public-health mission of therapeutics and vaccines. In some cases these overlap, as startups are firms engaged in antivirals, vaccines, and other aspects of infectious disease research. Moreover, while these are pressing needs at the moment, there is no reason to believe that the need is transitory. It makes sense *now* for Congress to *permanently* improve the incentives for innovative infectious disease drug development.

As is well known, drug development is a risky business. Typically, it takes an average of 15 years from the time a drug developer first begins testing a new formula until the Food and Drug Administration (FDA) approves it. Only 1 in 1,000 drug formulas will ever enter pre-clinical testing, and of those, roughly 8 percent will ultimately receive FDA approval. Drug development is long odds as a going-in proposition.

Vaccines and therapeutics may be even riskier. The development risks are just as pronounced but the ultimate market even riskier. Vaccines could be developed at great expense and never be deployed on a broad scale. Therapeutics could be developed only to see their market eliminated by a vaccine.

From these perspectives, some of the ideas currently circulating make a lot of sense. There are three, interlocking ideas in particular. To begin, one could provide an additional research and development (R&D) tax credit as a bonus for firms that choose to engage in infectious disease research. The credit would be a flat percentage of the qualified research costs associated with the development of countermeasures, such as infectious disease therapies.

As it turns out, however, a key segment in the innovative infectious disease drug sector is smaller firms without any FDA-approved products. These firms have no revenues, no profits, and no tax liability. A new credit is of no help to these firms unless it is also refundable. The second point is refundability to provide improved incentives and liquidity.

Finally, these small firms need to be able to attract capital to pursue their mission. These firms might appear less appealing because of the risk and inability to take advantage of tax benefits. Thus, the third piece is to amend the passive loss rules so that investors in pre-revenue infectious disease drug firms can use their share of the firm’s losses or R&D tax credits to offset income from other activities.