



Supporting Semiconductor Fabrication with an Investment Tax Credit (ITC)

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The Biden Administration has identified [semiconductors as a “critical good”](#) and has urged Congress to pass legislation supporting additional domestic investment in the industry to counter recent supply chain issues and the longer-term decline in domestic semiconductor manufacturing. To that end, the 117th Congress is [considering a range of policies to support semiconductor manufacturing](#) (or fabrication) and research and development (R&D). The America COMPETES Act (H.R. 4521) and the United States Innovation and Competition Act (USICA) (S. 1260) have each been passed by at least one chamber of Congress, and debate is expected to continue in conference. [Some Members of Congress have expressed interest](#) in tax credits to support semiconductor manufacturing, which are not currently included in H.R. 4521 or S. 1260.

Semiconductor Tax Credits Proposed in the 117th Congress

The [House-passed](#) and [Senate Finance Committee’s](#) version of the Build Back Better Act (H.R. 5376) included an advanced manufacturing tax credit for semiconductor fabrication. Specifically, the provision proposed a tax credit for taxpayers investing in advanced manufacturing facilities to manufacture semiconductors or semiconductor tooling equipment. The tax credit would have a base amount of 5%, with the credit rate increasing to 25% for facilities that pay prevailing wages and meet registered apprenticeship requirements. Taxpayers would be able to elect to receive the credit as *direct pay*, allowing credit amounts to be treated as payments of tax and amounts exceeding tax liability refunded to the taxpayer. Construction on a facility would have to begin by December 31, 2025, to qualify for this credit. For property for which construction began before January 1, 2022, only the basis attributable to construction taking place after December 31, 2021, would be eligible for the credit. The Joint Committee on Taxation (JCT) estimated this credit would [reduce federal tax revenues by \\$10.2 billion](#) over the FY2022-FY2031 budget window, with \$5.6 billion of that total associated with outlays due to direct pay.

Similarly, the Facilitating American-Built Semiconductors (FABS) Act (S. 2107/H.R. 7104) proposes a semiconductor manufacturing tax credit. This legislation proposes a 25% investment tax credit (ITC) for semiconductor manufacturing facilities, including research facilities, with H.R. 7104 also proposing to

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allow the ITC for research and design expenditures. S. 2017 does not include a termination date, while H.R. 7104 would expire after December 31, 2032.

Past Use of ITCs

Investment tax credit (ITCs) have been deployed in pursuit of broad-based economic policy objectives. An investment tax credit (ITC), generally limited to investments in machinery and equipment, was enacted in 1962 (P.L. 87-834). The credit was subject to numerous modifications, including some temporary terminations, before being repealed in the Tax Reform Act of 1986.

Separate investment tax credits have been enacted to support certain types of investment. For example, taxpayers investing in certain [energy-related property may be able to claim an ITC](#). This provision dates back to 1978. Like the proposed ITC for semiconductor fabrication, the energy credit can be claimed for structures or buildings when they are integral to the activity (e.g., energy production or semiconductor manufacturing). In 2009, the American Recovery and Reinvestment Act (ARRA; P.L. 111-5) provided \$2.3 billion for [advanced energy project credit](#) tax credit allocations. This credit was awarded to taxpayers making investments in advanced energy manufacturing property, which was defined not to include buildings or structural components.

Policy Considerations

Policymakers may seek to provide federal financial support to the domestic semiconductor industry in pursuit of economic or national security policy objectives. From an economic perspective, investment in the semiconductor industry might have positive external effects, which may justify federal investment in innovative high-tech or research-intensive industries.

One way to look at the efficacy of an ITC is to consider how much additional investment occurs because of the tax credit, relative to investment that would have taken place with or without the credit. Companies are responding to opportunities provided by current market conditions and making investments. In recent months, [Samsung announced plans](#) for a new \$17 billion semiconductor factory in Texas and [Intel announced plans](#) for a \$20 billion manufacturing site in Ohio. If projects like these that are already underway, or projects being driven forward by anticipated federal support in H.R. 4521 or S. 1260, are the primary beneficiaries of tax credits, then the amount of induced investment relative to the foregone federal tax revenue may be limited. A potential policy question may be whether projects receiving federal grants should be able to claim tax credits, or claim tax credits on the grant-funded portion of the project.

Providing targeted tax credits for an industry might raise questions about why that particular industry should receive special tax treatment. One option for supporting investment in research activities across industries would be to restore [full expensing for research expenses](#), a policy that would [benefit those in the semiconductor as well as other high-tech industries](#).

[Some analysts have suggested](#) that higher effective tax rates for buildings and structures, due to longer cost-recovery periods, might discourage investment in certain types of manufacturing capacity. If manufacturing facilities face higher effective tax rates than other economic sectors, policies that promote neutral tax treatment across industries could, over time, result in more investment flowing to manufacturing facilities. Neutrality could be pursued by accelerating cost recovery for buildings and structures, equalizing effective tax rates across industries. Alternatively, cost recovery for other economic sectors could be set to better match economic depreciation (a change which would increase the effective tax rates on investments in those sectors).

Tax incentives for semiconductor manufacturing might be viewed as being part of a broader industrial policy supporting a critical or strategic industry (China, for example,

has a national-level semiconductor policy). State governments have provided tax relief packages to encourage semiconductor fabrication investments. However, some advocates suggest that states may not have the capacity to provide tax relief sufficient to encourage multinational companies to make their investments domestically. Federal tax incentives could provide an additional nudge, or reduce the pressure on states to support this type of domestic investment.

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