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I. Introduction. Robert Paxton McCulloch inherited a fortune, and added to it with his chainsaw company. Then he spent it. He almost built a steam-powered automobile in the late 1940's and early 1950's. One might think that anyone crazy enough to do that would have been crazy enough to buy the Brooklyn Bridge. He didn't. He bought the London Bridge instead, and moved it to Arizona.

The steam-car project was abandoned in 1954. His foreman claims that the abandonment was caused by unfavorable tax laws. Was it?

This article will describe the development of McCulloch's steam-powered automobile—the Paxton Phoenix—and what happened to it. It will then consider the question, "Who shot the Phoenix?" Was it the tax laws, or was it something else?

II. The Steam-Powered Automobile: The Early Years

A. The Stanley Twins. Mention steam-powered automobiles, and most people think of the Stanley Steamer. The Stanley twins, Freelan and Francis, began building steam cars in 1897. By the time the Stanley Motor Carriage Company ceased production in 1924, they had built some 11,000 of them. The Stanley/Locomobile was the most popular automobile in the United States from 1900 to 1904. It was simple, with 37 moving parts, in contrast to the thousands of parts of its gas-driven competitors. It was also reliable, and powerful.

Perhaps its biggest competitive advantage was the ease of starting. The early gas automobiles had to be started with a crank. Sometimes, balky cranks led to broken arms. As to the Stanley Steamers, it may have taken as much as twenty minutes for the water to heat, but otherwise, starting was effortless, and crankless.

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1 John Bond, "Is Steam Coming Back? The true story of the Paxton Phoenix," Road and Track (April, 1957) [hereinafter "Bond"].
Two developments, however, led to the decline in popularity of the steamer. The first was price. By 1914, with the development of mass production, Henry Ford was producing twice as many automobiles in a day as Stanley was producing in a year. As a result, a Model T cost only one fourth the price of a Stanley.

Second was the invention of the electric starter, which first appeared on the Cadillac in 1912. With the disappearance of the cranks, the gas-powered cars became as easy to start as the steamers. Now, the instantaneous starting of the gas cars became far preferable to the twenty-minute wait required for the steam cars. The Stanley never recovered.\(^4\)

B. The Doble Brothers. The four Doble brothers built their first steam car in their parents' basement, while still in high school, in the years 1906 to 1909. Their "Model B" included a water-condensing device, which gave the vehicle a range of 1,500 miles, in contrast to the 100-mile range of the contemporary Stanleys.\(^5\) In 1915, with $200,000, Abner Doble founded the General Engineering Company, and started work on the Doble Model C.

The Model C featured two more improvements. The first was a key-based ignition system, so that the operator did not have to ignite the boiler by hand. However, the second innovation—the flash boiler system—was far more significant. Kerosene was atomized and ignited with a spark plug. Then, the water was rapidly heated inside coiled steel tubes.\(^6\) As a result, the twenty minutes previously required to get the boiler up to steam was reduced to ninety seconds.\(^7\) Furthermore, the Doble was powerful, quiet, and fast. In 1914, the earlier Doble Model B accelerated from zero to sixty in fifteen seconds, while a contemporary Model T took forty seconds to reach its top speed of 40-50 miles per hour.\(^8\)

\(^4\) The Stanley Steamer, Why the Fascination? [Link]
\(^6\) [hereinafter "Bellows"].
\(^7\) The Doble patented atomized burner is still being used in home oil burners to this day. Stanley Steamer: Why the Fascination? [Link] Retrieved August 2, 2011.
The Doble brothers, however, were great engineers, not great businessmen. Technical glitches and questionable stock sales sullied the reputation of the company, but what really did it in was the price. The Doble cost $18,000 in 1924, and later $20,000, at a time when the Model T Ford cost $260. The company went out of business in 1931.

Perhaps his company went under, but Abner Doble's personal reputation as an expert in steam technology endured. For the rest of his life, he made his living as a consultant on steam power. One of those who consulted him was Robert Paxton McCulloch.

III. McCulloch. Robert Paxton McCulloch is best known for his chain saw. His breakthrough product came in 1949, when he developed a chain saw which could be operated by one person—not two. In that same year, he initiated the steam car project, through his Paxton Engineering Division. He hired Abner Doble to help with the steam technology, Roscoe Hoffmann to help with the chassis, and famed industrial designer Brooks Stevens to design the body.

The steam engine would use three high pressure cylinders and three low pressure cylinders, and, of course, a quick flash boiler developed by the Dobles. The engine was tested on a dynamometer and on a Ford chassis, but it was never installed in what became the Paxton Phoenix.

The only prototype ever built was the 1953 Paxton Phoenix Convertible Coupe. It was, and is, a truly beautiful automobile, with many advanced design features, reminiscent of airplane technology, and of the groundbreaking Studebakers that Brock Stevens designed later. A Porsche 356 engine and transaxle were installed in the vehicle, "...so the chassis could be tested as steam engine development continued." The entire project, however, was abandoned in 1954, before the steam engine was ever

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9 Bellows, supra Note 5.
10 Leno, supra Note 3.
11 Bellows, supra Note 5.
14 Interview, supra Note 2. The Bond article states that the Paxton Division was formed in 1950. Bond, supra Note 1.
15 Stenquist, supra Note 2.
16 Id. For technical notes on the Paxton Phoenix, see McCulloch Steam Car: Random Notes. http://www.oacalb.org/ark:/13030/d3s20178a?order=2&brand=asq4.
17 Stevens designed the Studebaker Grand Turismo Hawk. He also designed the Oscar Mayer Weinermobile. So nobody's perfect. Stenquist, supra Note 2.
18 Id.
installed. Yet, the prototype survives, and is still a popular attraction at collectible car shows.

Why was the project abandoned? Jerry Williamson, the foreman of the Paxton project, and the "last surviving member of the Phoenix team," 19 explained:

The death of the car was purely economical. Tax laws had changed, eliminating some write-offs for research and development. 20

However, others felt differently. A writer at Road and Track Magazine asked McCulloch himself why the project was dropped:

...he summed it up neatly. In our words, it boils down to a problem of engineering man-power. As everyone knows, there is a tremendous shortage of engineers in this country, and the car program was taking trained technicians away from multitudinous McCulloch projects in other fields—fields which, for numerous good reasons, the company feels will be more profitable (and perhaps less risky) than the automobile manufacturing business. 21

So, the question remains. Did the tax laws kill the Paxton Phoenix? To answer that question, one must look at the taxation of research and development in the years just before the 1954 Code.

IV. Taxation of Research and Development Before the 1954 Code. The pre-1954 commentary reads as if everyone was using the same script:
At present, the tax law and the tax practice in this area come very close to being in direct conflict with each other. The resulting uncertainty in the minds of taxpayers acts as a definite deterrent to research. 22

19 Stenquist, supra Note 2.
20 Id. Mr. Williamson made essentially the same points to me in our telephone interview. He did say, however, that Mr. McCulloch came to realize that to enter into the automobile business required billions of investment, and that he was spread way too thin. Interview, supra Note 2.
21 Bond, supra Note 1. For a similar take, see Paxton Phoenix Convertible, http://auto.howstuffworks.com/1953-paxton-phoenix-convertible-0.htm, Retrieved August 2, 2011. Another terse explanation was "problems with the steam engine." Stenquist, supra Note 2 [quoting from March 2009 Classic and Sports Car Magazine].
Uncertainties as to the attitude of the Bureau of Internal Revenue regarding the deduction of research and development expenses are a deterrent to research expenditure.\(^{23}\)

We have it, on acceptable authority, that uncertainty over the attitude of the Bureau of Internal Revenue towards the deduction of research and development costs is a deterrent to industrial research.\(^{24}\)

"Uncertainty" is a "deterrent." They all said it.\(^{25}\) The big uncertainty was whether research and development expenditures could be deducted currently, or had to be capitalized. If the expenditures were capitalized, they would be added to the basis of the business asset. Then, they would be deducted later, either as the basis was amortized over time, or perhaps only upon the final sale or abandonment of the project.

The regulations suggested capitalization, but the caselaw and practice suggested that current deductions were sometimes possible. In fact, one commentator suggested that R & D always be deducted currently, just in case.\(^{26}\)

To some extent, the cases turned upon the success of the enterprise. Generally, successful R&D expenses had to be capitalized;\(^{27}\) while failed R&D expenses were currently deductible. Strong v. Commissioner,\(^ {28}\) for example, involved a centrifugal threshing machine. None of the $4,461.77 expended by the taxpayer in 1923

\(^{23}\) Vannevar Bush, Science—The Endless Frontier, 48 Transactions, Kansas Academy of Science 231, 244 (1945).
\(^{25}\) See also, Leon Rice, Research and Development Costs, 25 Taxes 41 (1947) ["The time is overdue for clarification"] at 41; ["The existing rules are fraught with such uncertainties and impracticalities"] (at 42).
\(^{26}\) When Congress finally got around to improving things, it, too, characterized the problem similarly:

Uncertainty whether particular expenditure is deductible or must be capitalized, particularly where there is no regular research budget. Unusual research expenses must be capitalized and written off in later years. Discourages research. Reports of the Special Tax Study Committee to the Committee on Ways and Means, (Nov. 4, 1947) at 105. See generally, Xuan-Thao Nguyen and Jeffrey A. Maine, The History of Intellectual Property Taxation: Promoting Innovation and Other Intellectual Property Goals? 84 SMU L. Rev. 101 (2011).

\(^{27}\) Leon Rice, Research and Development Costs, 25 Taxes 41(1947). In Appeal of Gilliam Mfg. Co., 1 B.T.A. 967 (1926), and the taxpayer currently deducted R&D expenses, but later argued that the expenses should have been capitalized. The Board of Tax Appeals agreed both times. In Pittsburgh Screw and Bolt Corp. v. Comm’r, 2 T.C.M. 747 (1943), the taxpayer again claimed that the current R&D deductions it had taken were improper, and should have been capitalized. This time, the taxpayer made "...an equitable gesture and undertakes, irrespective of the bar of any statute of limitations, to pay any additional income taxes for prior years, together with interest thereon, resulting from the disallowance in such years of any such items as may be restored to cost in computing its capital gain in 1939 upon sale of its Propeller Division." The Tax Court seemed to think that current deduction vs. capitalization was a close case, that the taxpayer had made its choice already, and was stuck with it.

developed anything that was "...of subsequent use to him or improved the machine in any way." Since the amounts expended "...added no capital improvement to the machine, certainly not of a lasting nature, which could in anywise be considered a capital investment," the expenditure was held to be currently deductible. Of course, even if the test had been relatively cut and dried—unsuccessful R&D is currently deductible, successful R&D must be capitalized—that test would not have been of much help. In the year when the expenses are incurred and current deductions are considered, one does not yet know whether the R&D will be successful.

But the test was not so cut and dried, after all. Not all failed R&D led to current deduction treatment. In Dresser Manufacturing Co. v. Commissioner, the taxpayer's efforts with respect to a gas compressor engine gave rise to no asset of any value. "They had merely 'learned a great many ways of not doing it and that was about all." Yet, the $96,000 of R&D expenses had to be capitalized.

If capitalization was the proper treatment, then there were two further difficulties. First, over what period of time could the expense be amortized? If a patent had been obtained, then it was relatively clear that the then 17-year life of the patent was the amortization period, though some argued for a shorter obsolescence. But what if no patent had been obtained?

Second, when could an abandonment loss be taken? In Hart-Bartlett-Sturtevant Grain Co. v. Comm'r, the taxpayer contracted with the Midwest Research Institute to research the "latent industrial and agricultural potentialities of the Middlewest area with the object of improving agricultural economy." "Nothing of a commercial value or of patentable nature" was developed by April 30, 1946, the end of the 1946 taxable year. Accordingly, the biological research was dropped on November 1, and the researchers were transferred to other projects. The court held that the expenses had to be

29 Id. at 903.
30 Id. at 904.
31 40 B.T.A. 341 (1939).
32 Id. at 345.
33 See also, Hart-Bartlett-Sturtevant Grain Co. v. Comm'r, 182 F.2d 153 (8th Cir. 1950). The Tax Court noted, "It is obvious ... that it was at least within the contemplation of petitioner's officers that research in regard to chemicals from grain might develop something of permanent value to petitioner." 12 T.C. 760, 767 (1949). Apparently, the 8th Circuit agreed, despite the taxpayer's characterization of the research as merely "...a long range shot in the dark." 182 F.2d 153, 156.
35 Hazeltine Corp. v. Comm'r, 32 B.T.A. 110 (1935). Taxpayer's arguments that patents in the fast-developing radio industry became obsolescent in less than 17 years were rejected.
36 182 F.2d 153 (8th Cir. 1950).
37 Id. at 154.
38 Id. at 155.
capitalized. Further, it held that the project could not have been deemed abandoned in Tax Year 1946, since the taxpayer continued to incur expenses after April 30. "How the expenditures should be treated for tax purposes during the year in which the experiments were finally abandoned," the Eighth Circuit noted, "was not before the Tax Court and is not before us." Clearly, the Eighth Circuit opinion was not terribly helpful to tax planners on the timing question.

The outlines of the argument are now clear. Robert P. McCulloch, through his Paxton Division, incurred substantial expenses in the development of a steam-powered automobile in the years from 1949 to 1954. It was an exceedingly risky venture—he had no idea whether or not he would succeed. Accordingly, he did not know whether the expenses were properly currently deductible, or whether they had to be capitalized. Moreover, if they were capitalized, the amortization period was uncertain, and, in the event of a total failure, so was the determination of the year of abandonment.

With all of these uncertainties of the tax laws operating to deter R&D ventures such as McCulloch's, no wonder that his risky, expensive project was abandoned. What a pity that the venture was abandoned in 1954, just before Congress finally rode to the rescue with the enactment of Section 174. With that new section, current deductibility would have been assured, and, if the taxpayer had chosen capitalization, the amortization period would have been set. Things would have been even better with the later Section 41 Credit For Increasing Research Activities, if only we knew how it worked, and how long it would last.

No doubt, the uncertainties of the tax laws did not make the development of the Paxton Phoenix steam car any easier, but that doesn't mean that they killed it. To get a better idea of whether the tax laws are in fact to blame, other possible culprits must be considered. In that regard, it is helpful to know what happened to McCulloch's steam car project after he abandoned it.

39 Id. at 157.
40 Similarly, in Dresser Mfg. Co. v. Comm'r, 40 B.T.A. 341 (1939), the Board of Tax Appeals required that unsuccessful R&D expenses be capitalized, not currently deductible. It noted, "We express no opinion as to the year in which the expenditures so capitalized would become deductible." Id. at 343. Yet, later in the same opinion, the Board held that the efforts with respect to Engine No. 1 were abandoned in 1933, and that those as to Engine No. 2 were abandoned in 1934, and that losses were properly charged off in those respective years. Go figure.
41 §174(b)(1).
42 §174(b)(1).
43 See §41(h). § 41 was recently extended, for the 14th time, P.L. 111-312. The Obama Administration would like to make it permanent. U.S. Dept of Treasury, Investing in U.S. Competitiveness, Office of Tax Policy, March 25, 2011. Good luck with that.
We already know what happened to the car itself. With luck, you can still see it. In addition, the best, most profitable technology from Paxton Engineering involved superchargers. Paxton Engineering, with the supercharger technology, was sold to Andy Granatelli, who ultimately resold it to Studebaker. It is now on its own, as Paxton Automotive. Finally, the steam technology ended up with William Powell Lear.

V. Post McCulloch: William Powell Lear. William Powell Lear was a brilliant and successful tinkerer and businessman. He was a pioneer in the development of automobile radios, airplane radios, and automatic pilots. Later on, he became famous again, for the Lear Jet.

Lear liked to go to the casinos. In the late 1960's, when he lived in Reno, he especially liked Harrah's Club, which featured a collection of more than 1,000 meticulously restored antique automobiles. Bill Lear and Bill Harrah became friends. Sometimes, Harrah would let Lear drive his Doble Steamer around the casino parking lot.

Then, in 1968, two twins from Pennsylvania, Calvin and Charles Williams, built a steam car and drove it to Washington, D.C. They gave rides around the capital to many politicians, and generated a fair amount of publicity. Lear heard about it, and was intrigued. As it happened, he had just sold his interest in Lear Jet, and needed a new project. He set up a meeting with the Williams twins, and ultimately decided to risk $1 million on research and $9 million on tooling for his new steam engines. "I want to be the man who eradicated air pollution," Lear said. "Wouldn't that be something?"

Lear knew that in 1906 a Stanley Steamer Rocket, clocked at 127.6 miles per hour, had beaten a Ford Model K in a thirty-mile touring race. Lear figured that, if the Stanley twins had done it then, he could do it now. What better marketing coup could there be for his new steam-powered technology than to beat all the gas-powered racers in the Indianapolis 500? Lear set up shop in Stead, Nevada, and announced that he would

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49 Setting up the meeting was difficult; the Williams twins were going bankrupt at the time, and did not have a telephone. Rashke, supra Note 46, 303.
50 Id.
build a steam-powered race car that would win the Indy 500. Some two hundred orders came in for the new steam car, many with initial deposits. Lear hired 133 engineers and craftsmen, and set to work.

Lear showed off the race car body at the International Auto Show in New York in 1969. Then, he installed his Delta II steam engine (presumably an improvement on the Delta I) in the body. It blew up, and it took $4 million of Lear's money with it.

Lear kept looking for a liquid other than water that could generate the steam. He claimed that he found one, and called it Learium. He was lying.

If he had to use water, then he was on the horns of a dilemma. At normal temperatures, the vapor generator and condenser would be too large for automobile use. If, on the other hand, the water was heated to a very high temperature, then he could use smaller vapor generators. However, the high temperatures would cause metal fatigue—unless a more resistant metal could be found. He kept looking for the right liquid and the right metal, and found neither.

Lear tried to convert a new Dodge Polaris engine into a steam engine, and sell it to the California Highway Patrol. However, none of the conversions made were practical. The CHP wasn't buying.

Since the steam engines tended to be too bulky for a car, Lear decided to try busses. In 1970, the state of California obtained $2.3 million in federal grants from the Department of Transportation, and initiated the California Steam Bus Project. Three companies were to build experimental steam busses, to be tested in San Francisco, San Diego, and Los Angeles. Lear got the San Francisco contract. General Motors gave Lear a 50-passenger bus and a Chevrolet Monte Carlo to play with, and, on February 11, 1972, Lear unveiled his Lear Steam Bus to reporters, in his Nevada facility. He gave the reporters rides for a while. Then, the driver feared that the boiler would explode, and the rides were terminated. The reporters were not terribly impressed.

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52 Id.
53 Id. at 307
54 Id. Lear claimed that it was an aqueous solution with a soluble lubricant. Lamm, supra Note 53.
55 Id. at 307-308
56 Id. at 308. Lamm, supra Note 53.
57 Rashke, supra Note 46, at 310.
In August, 1972, the Lear Vapor Turbine Powered Coach actually began service in San Francisco. It ran, though not without problems, for about two weeks. Lear had it driven up and down the city’s steepest hills, and then from San Francisco to Reno. The California Steam Bus Project claimed that the bus was a success.  

Elated, Lear took the bus to Washington, and asked for a $30 million grant. He didn’t get it, though he did get $900,000 from the Environmental Protection Agency.  

Soon afterward, he installed a steam turbine engine in the Monte Carlo, and had it driven from Stead, Nevada to San Francisco, where it broke down.

Lear had hoped that General Motors would support his efforts. Their tests, however, showed that his engine would only get 0.85 miles per gallon, on a simulated city bus route. General Motors declined to buy the rights to the engine or to Lear’s research. Then, the federal Department of Transportation decided that it would no longer fund the California Steam Bus Project. After GM, Fiat, and the federal government refused to support him any further, Lear finally pulled the plug on the steam project in 1975. He had spent some $17 million.

In an earlier speech, Lear diagnosed his problems:

A steam engine will never be mass-produced because it is too costly to build. It would be impossible to maintain, and for larger cars, the condenser would be too big to fit...you couldn’t find a garage mechanic who could repair one...I told the federal government this, much to their chagrin. They thought the steam car was the answer to the pollution problem and I was the savior. I let them down.

VI. Conclusion. Lear’s troubles, along with those of the Stanley twins, the Doble brothers, and the Williams twins, make it clear that the inherent technical problems of steam-powered automobiles were daunting. Of course, many technologies have


59 Later, the EPA would ask for its money back. They didn’t get it. Rashke, supra Note 46, at 321.

60 Id. at 313.

61 Id.

62 Id. at 328-329.

63 Speech given by William Lear to the Society of Automotive Engineers in Detroit, Id. at 308.
daunting problems in their early development. Perhaps what was needed was just a bit more time and money, and just the right idea.

It is true that the technology poses some difficult problems, but one cannot help but be curious how efficient a steam car might be with the benefit of modern materials and computers. With today's pressure to improve automotive performance and reduce emissions, it is not unthinkable that the steam car may rise again. 64

Then again, perhaps what was needed was an investor with a different mindset. Robert McCulloch and William Lear were kindred souls. McCulloch was, after all, the man who bought the London Bridge. 65 Both McCulloch and Lear seemed to care more about the thrill of the chase than they did about the regular, boring returns on business success.

McCulloch's own foreman described Lear as "McCulloch plus." 66 As one Lear engineer put it:

There were six or seven things going on at once, all due Wednesday and undercapitalized. Lear was a guy with a new idea every day and we'd chase off in a different direction. He never exercised the discipline to see them through. He robbed yesterday to feed today. The steam project was consuming too much money and Lear saw the other projects as get-rich-quick schemes. 67

Further, to quote his biographer:

To Lear it was a game. He not only understood that his steam engine might never meet his projections, he also knew he might never even come up with a good steam engine. Basking in the hot media lights, however,

64 Bellows, supra Note 5.
65 McCulloch's London Bridge venture cannot be blamed for the abandonment of the steam car project. The Paxton Phoenix was abandoned in 1954, while McCulloch did not buy the Lake Havasu land until 1963, and did not buy the London Bridge until 1968. McCulloch bought the Bridge for almost 2 ¼ million dollars, and moved it to Arizona. He also bought 11 Lockheed Electra airliners, formed McCulloch Airlines, and flew prospective investors to Lake Havasu for free. By 1978, there had been 2,702 free flights, with 137,000 prospective buyers. Lake Havasu City History. For a current brochure on the project, see http://www.londonbridgeresort.com. McCulloch was also involved with helicopters, aircraft accessories, and something called Pacific Optical. Bond. These far-flung, extravagant interests suggest that he, like Lear, might not have had the attention span required for a successful steam car.
66 Interview, supra Note 2.
67 Rashke, supra Note 46, at 307.
he was having fun with his money, and if he had to eat crow someday, he would do it and move on to something else.  

Everyone who tried to develop a commercially viable steam car ultimately failed. The technical difficulties were huge, the money demands were enormous, and the competing technologies were powerful. The last two who tried—McCulloch and Lear—also had personalities which, perhaps, did not lend themselves to the long term, single-minded pursuit of such a difficult project. Remember that, by the time of Lear's ventures, Section 174 was in place, so the tax laws were considerably more favorable. And yet, he still failed.

Perhaps the most ironic thing is that the same complaints about the state of the R&D tax laws pre-1954 still exist to this day. Things were complex and uncertain then; things are still complex and uncertain now. Just this year, the Joint Committee on Taxation wrote:

To the extent that research activities are responsive to the price of research activities, the research and experimentation tax credit should increase research activities beyond what they otherwise would be. However, the present-law research credit contains certain complexities and compliance costs that may obscure this effect.

So, uncertainty about the tax laws in the past deterred research and development, and probably still does. Was the deterrence enough to torpedo the Paxton Phoenix steam car? Perhaps, but there were quite a few other usual suspects to round up. Things are somewhat better now, with Section 174 and the on-again, off-again Section 41. Are the new improvements in the tax laws (compared to pre-1954) sufficient to inspire another

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68 id at 306.
69 The marginal tax rates would also need to be considered. The top corporate rates during McCulloch’s ventures—1949-1954—were 52%, while the top corporate rates during Lear’s ventures—1958-1975, ultimately came down to 48%—not much difference. http://www.irs.gov/12cortex.pdf. However, the top individual rates during McCulloch’s ventures ranged from 82% to 92%, compared to a range of 70% to 75% during Lear’s venture. http://www.taxpolicycenter.org/taxfacts/displayfact.cfm?Docid=213.
70 Joint Committee on Taxation on Tax Incentives for Research, Experimentation and Innovation, JCX-45-11 (September, 2011). See also §§59(e) and 280C(c)(3); Michael Meahan, Trevor Ackerman, Michael Fishman, Charles Medalis, Adam Uttley, and Christine Kachinsky, “New M-3 Rules for R&D Costs Create Issues for Taxpayers,” Tax Notes July 11, 2011. See generally, Vsevolod Maksin, ‘Assets in Wonderland: The IRS’s Inconsistent Policy on Software Costs,’ 21 Cardozo L. Rev. 959 (1999): “The IRS has made a number of contradictory pronouncements regarding... software costs.”; Michael D. Rashkin, “The Dysfunctional Research Credit Hampers Innovation,” Tax Notes, June 6, 2011; Meg Shreve, “Panelists Decry Administrative Hurdles to Research Credit Use,” Tax Notes, June 27, 2011; Alex Sadler and Jennifer Ray, “Navigating the Research Credit,” Tax Notes, Sept. 19, 2011. Moreover, if the enterprise is transnational, then the complexity of the tax aspects of R&D takes a further, quantum leap. See §482, and consider the wonderful world of R&D cost-sharing agreements. Reg. §1.482-7T.
run at steam technology? Maybe. It would certainly help if we knew more about them. Stay tuned.

For more on the tax rules governing research and development ventures, see Lexis Tax Advisor -- Federal Topical § 1H:9.syn

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