While R&D tax credits appear to increase R&D expenditures, how they change search strategies and impact private and public value creation remains less clear. We develop a simple model that predicts a stronger focus on exploitation, due to increased opportunity costs and the need to generate profit in order to take the credit. We empirically validate greater exploitation for firms in states that offered credits, and illustrate further implications including increased defensive patenting, decreased new market entry, an increase in valuation, and increased markups and profit margins. Technologically close industry peers exhibit a decrease in valuation. We provide evidence that the subsequent introduction of R&D tax credits in other states had qualitatively similar, although quantitatively smaller, effects. Our results indicate that although R&D tax credits create value, they also have unintended consequences.