

105TH CONGRESS
2D SESSION

H. R. 4542

To amend the Internal Revenue Code of 1986 to reduce the marriage penalty, to encourage health coverage, to allow the nonrefundable personal credits against the alternative minimum tax, and to extend permanently certain expiring provisions, and to amend the Social Security Act to increase the earnings limitation.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 10, 1998

Mrs. JOHNSON of Connecticut (for herself, Mr. SAM JOHNSON of Texas, Mrs. CHENOWETH, Ms. GRANGER, Mr. HOSTETTLER, Mr. LEWIS of Kentucky, Mr. GIBBONS, Mr. HALL of Texas, Mrs. KELLY, Mr. UPTON, Mr. POMBO, Mr. KNOLLENBERG, Mr. COBLE, Mr. RIGGS, Mr. ENGLISH of Pennsylvania, Mr. KINGSTON, Mr. SHAW, Mr. BASS, Mr. PETERSON of Pennsylvania, Mr. PITTS, Mr. SKEEN, Mr. LEWIS of California, Mr. MCKEON, Mr. SESSIONS, Mr. ROHRABACHER, Mr. PACKARD, Mrs. WILSON, Mr. MANZULLO, Mr. REDMOND, Mr. STERNS, Mr. QUINN, Mr. GILMAN, Mr. HORN, Mr. CASTLE, Mr. LEACH, Mr. CAMP, Mr. BOEHLERT, Mr. LOBIONDO, Mr. SHAYS, Mr. KOLBE, Mr. FOSSELLA, and Mr. FOLEY) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to reduce the marriage penalty, to encourage health coverage, to allow the nonrefundable personal credits against the alternative minimum tax, and to extend permanently certain expiring provisions, and to amend the Social Security Act to increase the earnings limitation.

1 *Be it enacted by the Senate and House of Representa-*
 2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 (a) **SHORT TITLE.**—This Act may be cited as the
 5 “Tax Relief for Working Americans Act of 1998”.

6 (b) **TABLE OF CONTENTS.**—

Sec. 1. Short title.

TITLE I—PROVISIONS PRIMARILY AFFECTING INDIVIDUALS

Sec. 101. Basic standard deduction for married individuals to be twice the de-
 duction for unmarried individuals.

Sec. 102. Full deduction for health insurance costs of individuals not eligible
 to participate in employer-subsidized health plans.

Sec. 103. Nonrefundable personal credits allowed against alternative minimum
 tax.

Sec. 104. Adjustment in monthly exempt amount for purposes of the social se-
 curity earnings test.

TITLE II—PROVISIONS PRIMARILY AFFECTING BUSINESSES

Subtitle A—Certain Expiring Provisions Modified and Made Permanent

Sec. 201. Research credit.

Sec. 202. Work opportunity credit.

Sec. 203. Contributions of stock to private foundations.

Sec. 204. Exemption for active financing income.

**Subtitle B—Credit for Clinical Testing Research Expenses Attributable to
 Certain Qualified Academic Institutions Including Teaching Hospitals**

Sec. 211. Credit for clinical testing research expenses attributable to certain
 qualified academic institutions including teaching hospitals.

1 **TITLE I—PROVISIONS PRI-**
2 **MARILY AFFECTING INDIVID-**
3 **UALS**

4 **SEC. 101. BASIC STANDARD DEDUCTION FOR MARRIED IN-**
5 **DIVIDUALS TO BE TWICE THE DEDUCTION**
6 **FOR UNMARRIED INDIVIDUALS.**

7 (a) IN GENERAL.—Paragraph (2) of section 63(c) of
8 the Internal Revenue Code of 1986 (relating to standard
9 deduction) is amended—

10 (1) by striking “\$5,000” in subparagraph (A)
11 and inserting “twice the dollar amount in effect
12 under subparagraph (C) for the taxable year”,

13 (2) by adding “or” at the end of subparagraph
14 (B),

15 (3) by striking “in the case of” and all that fol-
16 lows in subparagraph (C) and inserting “in any
17 other case.”, and

18 (4) by striking subparagraph (D).

19 (b) TECHNICAL AMENDMENT.—Subparagraph (B) of
20 section 1(f)(6) of such Code is amended by striking
21 “(other than with” and all that follows through “shall be
22 applied” and inserting “(other than sections 63(c)(4) and
23 151(d)(4)(A)) shall be applied”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 1998.

4 **SEC. 102. FULL DEDUCTION FOR HEALTH INSURANCE**
5 **COSTS OF INDIVIDUALS NOT ELIGIBLE TO**
6 **PARTICIPATE IN EMPLOYER-SUBSIDIZED**
7 **HEALTH PLANS.**

8 (a) IN GENERAL.—Part VII of subchapter B of chap-
9 ter 1 of the Internal Revenue Code of 1986 (relating to
10 additional itemized deductions) is amended by redesignat-
11 ing section 222 as section 223 and by inserting after sec-
12 tion 221 the following new section:

13 **“SEC. 222. HEALTH INSURANCE COSTS.**

14 “(a) IN GENERAL.—In the case of an individual,
15 there shall be allowed as a deduction an amount equal to
16 the amount paid during the taxable year for insurance
17 which constitutes medical care for the taxpayer, his
18 spouse, and dependents.

19 “(b) LIMITATIONS.—

20 “(1) OTHER COVERAGE.—Subsection (a) shall
21 not apply to any taxpayer for any calendar month
22 for which the taxpayer is eligible to participate in
23 any subsidized health plan maintained by any em-
24 ployer of the taxpayer or of the spouse of the tax-

1 payer. The preceding sentence shall be applied sepa-
2 rately with respect to—

3 “(A) plans which include primarily cov-
4 erage for qualified long-term care services (as
5 defined in section 7702B(c)) or are qualified
6 long-term care insurance contracts (as defined
7 in section 7702B(b)), and

8 “(B) plans which do not include such cov-
9 erage and are not such contracts.

10 “(2) LONG-TERM CARE PREMIUMS.—In the
11 case of a qualified long-term care insurance contract
12 (as defined in section 7702B(b)), only eligible long-
13 term care premiums (as defined in section
14 213(d)(10)) shall be taken into account under sub-
15 section (a).

16 “(3) MEDICARE PREMIUMS.—Subsection (a)
17 shall not apply to amounts paid as premiums under
18 part B of title XVIII of the Social Security Act.

19 “(c) SPECIAL RULES.—

20 “(1) COORDINATION WITH MEDICAL DEDUC-
21 TION, ETC.—Any amount paid by a taxpayer for in-
22 surance to which subsection (a) applies shall not be
23 taken into account in computing the amount allow-
24 able to the taxpayer as a deduction under section
25 213(a).

1 “(2) DEDUCTION NOT ALLOWED FOR SELF-EM-
2 PLOYMENT TAX PURPOSES.—The deduction allow-
3 able by reason of this section shall not be taken into
4 account in determining an individual’s net earnings
5 from self-employment (within the meaning of section
6 1402(a)) for purposes of chapter 2.”

7 (b) CONFORMING AMENDMENTS.—

8 (1) Subsection (l) of section 162 of such Code
9 is hereby repealed.

10 (2) Subsection (a) of section 62 of such Code
11 is amended by inserting after paragraph (17) the
12 following new paragraph:

13 “(18) HEALTH INSURANCE COSTS OF CERTAIN
14 INDIVIDUALS.—The deduction allowed by section
15 222.”

16 (3) The table of sections for part VII of sub-
17 chapter B of chapter 1 of such Code is amended by
18 striking the last item and inserting the following
19 new items:

 “Sec. 222. Health insurance costs.
 “Sec. 223. Cross reference.”

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to taxable years beginning after
22 December 31, 1998.

1 **SEC. 103. NONREFUNDABLE PERSONAL CREDITS ALLOWED**
2 **AGAINST ALTERNATIVE MINIMUM TAX.**

3 (a) IN GENERAL.—Subsection (a) of section 26 of the
4 Internal Revenue Code of 1986 is amended to read as fol-
5 lows:

6 “(a) LIMITATION BASED ON AMOUNT OF TAX.—The
7 aggregate amount of credits allowed by this subpart for
8 the taxable year shall not exceed the sum of—

9 “(1) the taxpayer’s regular tax liability for the
10 taxable year, and

11 “(2) the tax imposed for the taxable year by
12 section 55(a).”.

13 (b) CONFORMING AMENDMENT.—Subsection (d) of
14 section 24 of such Code is amended by striking paragraph
15 (2) and by redesignating paragraph (3) as paragraph (2).

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years beginning after
18 December 31, 1998.

19 **SEC. 104. ADJUSTMENT IN MONTHLY EXEMPT AMOUNT FOR**
20 **PURPOSES OF THE SOCIAL SECURITY EARN-**
21 **INGS TEST.**

22 (a) INCREASE IN MONTHLY EXEMPT AMOUNT FOR
23 INDIVIDUALS WHO HAVE ATTAINED RETIREMENT
24 AGE.—Section 203(f)(8)(D) of the Social Security Act (42
25 U.S.C. 403(f)(8)(D)) is amended—

1 (1) in clause (iii), by inserting “and” at the
2 end; and

3 (2) by striking clauses (iv) through (vii) and in-
4 serting the following new clause:

5 “(iv) for each month of any taxable
6 year ending after 1998 and before 2000,
7 \$2,500.”.

8 (b) CONFORMING AMENDMENTS.—

9 (1) Section 203(f)(8)(B)(ii) of such Act (42
10 U.S.C. 403(f)(8)(B)(ii)) is amended—

11 (A) by striking “after 2001 and before
12 2003” and inserting “after 1998 and before
13 2000”; and

14 (B) in subclause (II), by striking “2000”
15 and inserting “1997”.

16 (2) The second sentence of section 223(d)(4)(A)
17 of such Act (42 U.S.C. 423(d)(4)(A)) is amended by
18 inserting “and section 104 of the Tax Relief for
19 Working Americans Act of 1998” after “1996”.

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply with respect to taxable years begin-
22 ning after 1998.

1 **TITLE II—PROVISIONS PRI-**
2 **MARILY AFFECTING BUSI-**
3 **NESSES**

4 **Subtitle A—Certain Expiring Provi-**
5 **sions Modified and Made Per-**
6 **manent**

7 **SEC. 201. RESEARCH CREDIT.**

8 (a) CREDIT MADE PERMANENT.—

9 (1) IN GENERAL.—Section 41 of the Internal
10 Revenue Code of 1986 (relating to credit for increas-
11 ing research activities) is amended by striking sub-
12 section (h).

13 (2) CONFORMING AMENDMENT.—Paragraph (1)
14 section 45C(b) of such Code is amended by striking
15 subparagraph (D).

16 (3) EFFECTIVE DATE.—The amendments made
17 by this subsection shall apply to amounts paid or in-
18 curred after June 30, 1998.

19 (b) INCREASE IN PERCENTAGES UNDER ALTER-
20 NATIVE INCREMENTAL CREDIT.—

21 (1) IN GENERAL.—Subparagraph (A) of section
22 41(c)(4) of such Code is amended—

23 (A) by striking “1.65 percent” and insert-
24 ing “2.65 percent”,

1 (B) by striking “2.2 percent” and inserting
2 “3.2 percent”, and

3 (C) by striking “2.75 percent” and insert-
4 ing “3.75 percent”.

5 (2) EFFECTIVE DATE.—The amendments made
6 by this subsection shall apply to taxable years begin-
7 ning after June 30, 1998.

8 **SEC. 202. WORK OPPORTUNITY CREDIT.**

9 (a) CREDIT MADE PERMANENT.—

10 (1) IN GENERAL.—Subsection (c) of section 51
11 of the Internal Revenue Code of 1986 is amended by
12 striking paragraph (4).

13 (2) EFFECTIVE DATE.—The amendment made
14 by paragraph (1) shall apply to individuals who
15 begin work for the employer after June 30, 1998.

16 (b) CREDIT ALLOWED TO TAX-EXEMPT ORGANIZA-
17 TIONS.—

18 (1) IN GENERAL.—Chapter 25 of such Code
19 (relating to general provisions relating to employ-
20 ment taxes) is amended by inserting after section
21 3510 the following new section:

1 **“SEC. 3511. TREATMENT OF WORK OPPORTUNITY WAGES**
2 **AS PAYMENT OF EMPLOYMENT TAX LIABIL-**
3 **ITY.**

4 “(a) GENERAL RULE.—For purposes of this title, the
5 amount equal to the work opportunity credit amount with
6 respect to any wages paid for any calendar quarter by an
7 eligible tax-exempt employer shall be treated as a payment
8 by such employer of such employer’s employment tax li-
9 ability for such calendar quarter.

10 “(b) WORK OPPORTUNITY CREDIT AMOUNT.—For
11 purposes of this section, the work opportunity credit
12 amount for any calendar quarter is the amount of the
13 credit determined under section 51 (relating to work op-
14 portunity credit) in accordance with the following:

15 “(1) APPLICABLE PERCENTAGES.—

16 “(A) INDIVIDUALS PERFORMING AT LEAST
17 400 HOURS OF SERVICES.—In the case of an in-
18 dividual who has completed at least 400 hours
19 of services performed for the eligible tax-exempt
20 employer, subsection (a) of section 51 shall be
21 applied by substituting ‘30 percent’ for ‘40 per-
22 cent’.

23 “(B) QUARTERLY ESTIMATE OF ANNUAL
24 HOURS OF SERVICES TO BE PERFORMED.—For
25 purposes of subparagraph (A) and section
26 51(i)(3), in lieu of the hours of services actually

1 performed by an individual during any of the
2 first 3 quarters of a calendar year, an employer
3 may make an estimate of the hours of services
4 an individual is reasonably expected to perform
5 for the employer in such calendar year. The em-
6 ployer shall adjust the deemed payments in ac-
7 cordance with subsection (c) for the last quarter
8 of such calendar year to reflect the hours of
9 services actually performed by such individual
10 in such calendar year.

11 “(2) ELIGIBLE TAX-EXEMPT EMPLOYER.—The
12 term ‘eligible tax-exempt employer’ means any orga-
13 nization which is exempt from tax under subtitle A
14 other than—

15 “(A) any governmental unit, and

16 “(B) any agency or instrumentality of a
17 governmental unit.

18 “(c) COORDINATION WITH DEPOSITORY REQUIRE-
19 MENTS.—

20 “(1) IN GENERAL.—Any employer who is enti-
21 tled to treat any amount as a payment under sub-
22 section (a) for any calendar quarter may reduce, in
23 such manner as the Secretary may by regulations
24 prescribe, by a like amount, the amount otherwise

1 required to be deposited during such quarter by rea-
2 son of the employment tax liability of such employer.

3 “(2) QUARTERLY DETERMINATIONS.—The
4 amount of reduction permitted under paragraph (1)
5 for any calendar quarter shall be based on a sepa-
6 rate estimate for such quarter of the amount of
7 deemed payments to which the employer reasonably
8 expects to be entitled under subsection (a) for the
9 calendar year which includes such quarter and shall
10 be properly adjusted (under regulations prescribed
11 by the Secretary) to reflect the amount by which
12 prior reductions under subsection (a) during such
13 calendar year were in excess of, or less than, the
14 amounts which would be proper under such esti-
15 mate.

16 “(3) YEAR-END ADJUSTMENTS.—

17 “(A) EXCESS OF DEEMED PAYMENTS AL-
18 LOWABLE OVER DEPOSITORY BENEFIT
19 CLAIMED.—If the amount of deemed payments
20 to which an employer is entitled under sub-
21 section (a) for any calendar year exceeds the
22 amount claimed by the employer under para-
23 graph (1) during such year, such excess shall be
24 treated for purposes of this title as an overpay-
25 ment made by such employer. For purposes of

1 determining interest, such overpayment shall be
2 treated as made on January 31 of the following
3 calendar year.

4 “(B) DEPOSITORY BENEFIT CLAIMED EX-
5 CEEDS DEEMED PAYMENT ALLOWABLE.—If the
6 amount claimed by the employer under para-
7 graph (1) during the calendar year exceeds the
8 amount of deemed payments to which such em-
9 ployer is entitled under subsection (a) for such
10 year, such excess shall be treated for purposes
11 of this title as an underpayment of the tax im-
12 posed by this chapter for such calendar year.
13 For purposes of determining interest, such un-
14 derpayment shall be allocated ratably among
15 the calendar quarters in such year (or in such
16 other manner as the Secretary may by regula-
17 tions prescribe).

18 “(d) PAYMENT TREATED AS MADE ON DUE DATE.—
19 Notwithstanding subsection (c), for purposes of determin-
20 ing interest, any deemed payment under subsection (a) for
21 any calendar quarter shall be treated as made on the due
22 date for the return for such quarter.

23 “(e) EMPLOYMENT TAX LIABILITY.—For purposes
24 of this section, the term ‘employment tax liability’ means
25 liability for the taxes imposed by chapters 21 and 24.

1 “(f) SOCIAL SECURITY TRUST FUNDS.—This section
2 shall not be construed to affect amounts appropriated
3 under sections 201 and 1817(a) of the Social Security
4 Act.”

5 (2) CLERICAL AMENDMENT.—The table of sec-
6 tions for chapter 25 of such Code is amended by
7 adding at the end the following new item:

“Sec. 3511. Treatment of work opportunity wages as payment of
employment tax liability.”

8 (3) EFFECTIVE DATE.—The amendments made
9 by this subsection shall apply to individuals who
10 begin work for the employer after the date of the en-
11 actment of this Act.

12 **SEC. 203. CONTRIBUTIONS OF STOCK TO PRIVATE FOUNDA-**
13 **TIONS.**

14 (a) IN GENERAL.—Paragraph (5) of section 170(e)
15 of the Internal Revenue Code of 1986 is amended by strik-
16 ing subparagraph (D).

17 (b) EFFECTIVE DATE.—The amendment made by
18 subsection (a) shall apply to contributions made after
19 June 30, 1998.

20 **SEC. 204. EXEMPTION FOR ACTIVE FINANCING INCOME.**

21 (a) EXEMPTION FROM FOREIGN PERSONAL HOLD-
22 ING COMPANY INCOME.—Section 954 of the Internal Rev-
23 enue Code of 1986 (as amended by subsection (d)) is

1 amended by adding at the end the following new sub-
2 section:

3 “(h) SPECIAL RULE FOR INCOME DERIVED IN THE
4 ACTIVE CONDUCT OF INSURANCE BUSINESSES AND
5 BANKING, FINANCING, OR SIMILAR BUSINESSES.—

6 “(1) IN GENERAL.—For purposes of subsection
7 (c)(1), foreign personal holding company income
8 shall not include income which is—

9 “(A) derived in the active conduct by a
10 controlled foreign corporation of a banking, fi-
11 nancing, or similar business, but only if—

12 “(i) the corporation is predominantly
13 engaged in the active conduct of such busi-
14 ness, and

15 “(ii) such income is derived from
16 transactions—

17 “(I) with customers located with-
18 in the country under the laws of
19 which the corporation is created or or-
20 ganized, or

21 “(II) with customers not de-
22 scribed in subclause (I), but only if
23 employees of the corporation which
24 are located in the country under the
25 laws of which the corporation is cre-

1 ated or organized (or in the case of a
2 qualified business unit described in
3 section 989(a) which both maintains
4 its principal office and conducts sub-
5 stantial business activity in a country,
6 employees of such unit which are lo-
7 cated in such country) materially par-
8 ticipate in such transaction,

9 “(B) received from a customer by a con-
10 trolled foreign corporation which is a qualifying
11 insurance company for the issuing or reinsuring
12 of any insurance or annuity contract, but only
13 if the customer is located in the country under
14 the laws of which the controlled foreign cor-
15 poration is created or organized,

16 “(C) received from a person other than a
17 related person (within the meaning of sub-
18 section (d)(3)) and derived from the invest-
19 ments made by a qualifying insurance company
20 of its reserves or of 80 percent of its unearned
21 premiums (as both are determined in the man-
22 ner prescribed under paragraph (4)), or

23 “(D) received from a person other than a
24 related person (within the meaning of sub-
25 section (d)(3)) and derived from investments

1 made by a qualifying insurance company of an
2 amount of its assets equal to—

3 “(i) in the case of property, casualty,
4 or health insurance contracts, one-third of
5 its premiums earned on such insurance
6 contracts during the taxable year (as de-
7 fined in section 832(b)(4)), and

8 “(ii) in the case of life insurance or
9 annuity contracts, 10 percent of the re-
10 serves described in subparagraph (B) for
11 such contracts.

12 Subparagraphs (C) and (D) shall not apply to in-
13 come allocable to any contract to which subpara-
14 graph (B) does not apply (determined after applying
15 paragraph (6)(D)(ii)).

16 “(2) PREDOMINANTLY ENGAGED.—For pur-
17 poses of paragraph (1)(A), a controlled foreign cor-
18 poration shall be deemed predominantly engaged in
19 the active conduct of a banking, financing, or similar
20 business only if—

21 “(A) more than 70 percent of its gross in-
22 come is derived from such business from trans-
23 actions described in subclause (I) or (II) of
24 paragraph (1)(A)(ii), or

25 “(B) the corporation is—

1 “(i) engaged in the active conduct of
2 a banking business and is an institution li-
3 censed to do business as a bank in the
4 United States (or is any other corporation
5 not so licensed which is specified by the
6 Secretary in regulations), or

7 “(ii) engaged in the active conduct of
8 a securities business and is registered as a
9 securities broker or dealer under section
10 15(a) of the Securities Exchange Act of
11 1934 or is registered as a Government se-
12 curities broker or dealer under section
13 15C(a) of such Act (or is any other cor-
14 poration not so registered which is speci-
15 fied by the Secretary in regulations).

16 “(3) PRINCIPLES FOR DETERMINING INSUR-
17 ANCE INCOME.—Except as provided by the Sec-
18 retary, for purposes of subparagraphs (C) and (D)
19 of paragraph (1)—

20 “(A) in the case of any contract which is
21 a separate account-type contract (including any
22 variable contract not meeting the requirements
23 of section 817), income credited under such
24 contract shall be allocable only to such contract,
25 and

1 “(B) income not allocable under subpara-
2 graph (A) shall be allocated ratably among con-
3 tracts not described in subparagraph (A).

4 “(4) METHODS FOR DETERMINING UNEARNED
5 PREMIUMS AND RESERVES.—For purposes of para-
6 graph (1)(C)—

7 “(A) PROPERTY AND CASUALTY CON-
8 TRACTS.—The unearned premiums and reserves
9 of a qualifying insurance company with respect
10 to property, casualty, or health insurance con-
11 tracts shall be determined using the same meth-
12 ods and interest rates which would be used if
13 such company were subject to tax under sub-
14 chapter L.

15 “(B) LIFE INSURANCE AND ANNUITY CON-
16 TRACTS.—The amount of the reserve of a quali-
17 fying insurance company for any life insurance
18 or annuity contract shall be equal to the greater
19 of—

20 “(i) the net surrender value of such
21 contract (as defined in section
22 807(e)(1)(A)), or

23 “(ii) the reserve determined under
24 paragraph (5).

1 “(C) LIMITATION ON RESERVES.—In no
2 event shall the reserve determined under this
3 paragraph for any contract as of any time ex-
4 ceed the amount which would be taken into ac-
5 count with respect to such contract as of such
6 time in determining foreign statement reserves
7 (less any catastrophe, deficiency, or similar re-
8 serves).

9 “(5) AMOUNT OF RESERVE.—The amount of
10 the reserve determined under this paragraph with
11 respect to any contract shall be determined in the
12 same manner as it would be determined if the quali-
13 fying insurance company were subject to tax under
14 subchapter L, except that in applying such sub-
15 chapter—

16 “(A) the interest rate determined for the
17 foreign country in which such company is cre-
18 ated or organized and which, except as provided
19 by the Secretary, is calculated in the same man-
20 ner as the Federal mid-term rate under section
21 1274(d) shall be substituted for the applicable
22 Federal interest rate,

23 “(B) the highest assumed interest rate
24 permitted to be used in determining foreign

1 statement reserves shall be substituted for the
2 prevailing State assumed interest rate, and

3 “(C) tables for mortality and morbidity
4 which reasonably reflect the current mortality
5 and morbidity risks in the foreign country shall
6 be substituted for the mortality and morbidity
7 tables otherwise used for such subchapter.

8 “(6) DEFINITIONS.—For purposes of this sub-
9 section—

10 “(A) QUALIFYING INSURANCE COMPANY.—
11 The term ‘qualifying insurance company’ means
12 any entity which—

13 “(i) is subject to regulation as an in-
14 surance company by the country under the
15 laws of which the entity is created or orga-
16 nized, and

17 “(ii) is engaged in the active conduct
18 of an insurance business and would be sub-
19 ject to tax under subchapter L if it were
20 a domestic corporation.

21 “(B) LIFE INSURANCE OR ANNUITY CON-
22 TRACT.—For purposes of this section and sec-
23 tion 953, the determination of whether a con-
24 tract issued by a controlled foreign corporation
25 is a life insurance contract or an annuity con-

1 tract shall be made without regard to sections
2 72(s), 101(f), 817(h), and 7702 if—

3 “(i) such contract is regulated as a
4 life insurance or annuity contract by the
5 country under the laws of which the cor-
6 poration is created or organized, and

7 “(ii) no policyholder, insured, annu-
8 itant, or beneficiary with respect to the
9 contract is a United States person.

10 “(C) NONCANCELLABLE ACCIDENT AND
11 HEALTH INSURANCE CONTRACTS.—A
12 noncancellable accident and health insurance
13 contract shall be treated for purposes of this
14 subsection in the same manner as a life insur-
15 ance contract except that paragraph (4)(B)(i)
16 shall not apply.

17 “(D) LOCATED.—

18 “(i) IN GENERAL.—The determination
19 of where a customer is located shall be
20 made under rules prescribed by the Sec-
21 retary.

22 “(ii) SPECIAL RULE FOR QUALIFIED
23 BUSINESS UNITS.—Gross income derived
24 by a corporation’s qualified business unit
25 (within the meaning of section 989(a))

1 from transactions with customers which
2 are located in the country in which the
3 qualified business unit both maintains its
4 principal office and conducts substantial
5 business activity shall be treated as derived
6 from transactions with customers which
7 are located within the country under the
8 laws of which the controlled foreign cor-
9 poration is created or organized.

10 “(E) CUSTOMER.—

11 “(i) IN GENERAL.—The term ‘cus-
12 tomer’ means, with respect to any con-
13 trolled foreign corporation, any person
14 which has a customer relationship with
15 such corporation.

16 “(ii) SPECIAL RULES RELATING TO
17 INSURANCE.—For purposes of paragraph
18 (1)(B)—

19 “(I) except as provided in regula-
20 tions, the customer shall be the in-
21 sured under the insurance or annuity
22 contract, and

23 “(II) income received from a re-
24 lated person (as defined in subsection
25 (d)(3)) for a policy of reinsurance

1 shall not be treated as income re-
2 ceived from a customer unless the pre-
3 mium would have qualified under
4 paragraph (1)(B) if the controlled for-
5 eign corporation had received the pre-
6 mium directly from the party first in-
7 sured by the customer.

8 “(iii) EXCEPTION FOR RELATED, ETC.
9 PERSONS.—A person who is a related per-
10 son (as defined in subsection (d)(3)), an
11 officer, a director, or an employee with re-
12 spect to any controlled foreign corporation
13 shall not be treated as a customer with re-
14 spect to any transaction if a principal pur-
15 pose of such transaction is to satisfy any
16 requirement of this subsection or with re-
17 spect to any transaction described in para-
18 graph (1)(A)(ii)(II).

19 “(7) ANTI-ABUSE RULES.—For purposes of ap-
20 plying this subsection and subsection (c)(2)(C)(ii),
21 there shall be disregarded any item of income, gain,
22 loss, or deduction with respect to any transaction or
23 series of transactions one of the principal purposes
24 of which is qualifying income or gain for the exclu-
25 sion under this section, including—

1 “(A) any change in the method of comput-
2 ing reserves or any other transaction or series
3 of transactions a principal purpose of which is
4 the acceleration or deferral of any item in order
5 to claim the benefits of such exclusion through
6 the application of this subsection, and

7 “(B) organizing entities to act as cus-
8 tomers in order to satisfy any same country re-
9 quirement under this subsection.”

10 (b) SPECIAL RULES FOR DEALERS.—Section
11 954(e)(2)(C) of such Code is amended to read as follows:

12 “(C) EXCEPTION FOR DEALERS.—Except
13 as provided by regulations, in the case of a reg-
14 ular dealer in property (within the meaning of
15 paragraph (1)(B)), forward contracts, option
16 contracts, or similar financial instruments (in-
17 cluding notional principal contracts and all in-
18 struments referenced to commodities), there
19 shall not be taken into account in computing
20 foreign personal holding income—

21 “(i) any item of income, gain, deduc-
22 tion, or loss (other than any item described
23 in subparagraph (A), (E), or (G) of para-
24 graph (1)) from any transaction (including
25 hedging transactions) entered into in the

1 ordinary course of such dealer's trade or
2 business as such a dealer, and

3 “(ii) if such dealer is a dealer in secu-
4 rities (within the meaning of section 475),
5 any interest or dividend or equivalent
6 amount described in subparagraph (E) or
7 (G) of paragraph (1) from any transaction
8 (including any hedging transaction or
9 transaction described in section
10 956(c)(2)(J)) entered into in the ordinary
11 course of such dealer's trade or business as
12 such a dealer in securities, but only if em-
13 ployees of the dealer which are located in
14 the country under the laws of which the
15 dealer is created or organized (or in the
16 case of a qualified business unit described
17 in section 989(a) which both maintains its
18 principal office and conducts substantial
19 business activity in a country, employees of
20 such unit which are located in such coun-
21 try) materially participate in such trans-
22 action.”

23 (c) EXEMPTION FROM FOREIGN BASE COMPANY
24 SERVICES INCOME.—Paragraph (2) of section 954(e) of
25 such Code (as amended by subsection (d)) is amended by

1 striking “or” at the end of subparagraph (A), by striking
2 the period at the end of subparagraph (B) and inserting
3 “, or”, and by adding at the end the following:

4 “(C)(i) a transaction by the controlled for-
5 eign corporation if the income from the trans-
6 action is not foreign personal holding company
7 income by reason of subsection (h), or

8 “(ii) a transaction by the controlled foreign
9 corporation if subsection (c)(2)(C)(ii) applies to
10 such transaction.”

11 (d) REPEAL OF CANCELED PROVISIONS.—Section
12 1175 of the Taxpayer Relief Act of 1997, and the amend-
13 ments made by such section, are hereby repealed, and the
14 Internal Revenue Code of 1986 shall be applied and ad-
15 ministered as if such section (and amendments) had never
16 been enacted.

1 **Subtitle B—Credit for Clinical**
 2 **Testing Research Expenses At-**
 3 **tributable to Certain Qualified**
 4 **Academic Institutions Including**
 5 **Teaching Hospitals**

6 **SEC. 211. CREDIT FOR CLINICAL TESTING RESEARCH EX-**
 7 **PENSES ATTRIBUTABLE TO CERTAIN QUALI-**
 8 **FIED ACADEMIC INSTITUTIONS INCLUDING**
 9 **TEACHING HOSPITALS.**

10 (a) IN GENERAL.—Subpart D of part IV of sub-
 11 chapter A of chapter 1 of the Internal Revenue Code of
 12 1986 (relating to business related credits) is amended by
 13 inserting after section 41 the following:

14 **“SEC. 41A. CREDIT FOR MEDICAL INNOVATION EXPENSES.**

15 “(a) GENERAL RULE.—For purposes of section 38,
 16 the medical innovation credit determined under this sec-
 17 tion for the taxable year shall be an amount equal to 20
 18 percent of the excess (if any) of—

19 “(1) the qualified medical innovation expenses
 20 for the taxable year, over

21 “(2) the medical innovation base period
 22 amount.

23 “(b) QUALIFIED MEDICAL INNOVATION EX-
 24 PENSES.—For purposes of this section—

1 “(1) IN GENERAL.—The term ‘qualified medical
2 innovation expenses’ means the amounts which are
3 paid or incurred by the taxpayer during the taxable
4 year directly or indirectly to any qualified academic
5 institution for clinical testing research activities.

6 “(2) CLINICAL TESTING RESEARCH ACTIVI-
7 TIES.—

8 “(A) IN GENERAL.—The term ‘clinical
9 testing research activities’ means human clinical
10 testing conducted at any qualified academic in-
11 stitution in the development of any product,
12 which occurs before—

13 “(i) the date on which an application
14 with respect to such product is approved
15 under section 505(b), 506, or 507 of the
16 Federal Food, Drug, and Cosmetic Act,

17 “(ii) the date on which a license for
18 such product is issued under section 351 of
19 the Public Health Service Act, or

20 “(iii) the date classification or ap-
21 proval of such product which is a device in-
22 tended for human use is given under sec-
23 tion 513, 514, or 515 of the Federal Food,
24 Drug, and Cosmetic Act.

1 “(B) PRODUCT.—The term ‘product’
2 means any drug, biologic, or medical device.

3 “(3) QUALIFIED ACADEMIC INSTITUTION.—The
4 term ‘qualified academic institution’ means any of
5 the following institutions:

6 “(A) EDUCATIONAL INSTITUTION.—A
7 qualified organization described in section
8 170(b)(1)(A)(iii) which is owned or affiliated
9 with an institution of higher education as de-
10 scribed in section 3304(f).

11 “(B) CHARITABLE RESEARCH HOSPITAL.—
12 A charitable research hospital which—

13 “(i) is owned by an organization de-
14 scribed in section 501(c)(3) and exempt
15 from taxation under section 501(a),

16 “(ii) is not a private foundation, and

17 “(iii) is designated as a cancer center
18 by the National Cancer Institute.

19 “(4) EXCLUSION FOR AMOUNTS FUNDED BY
20 GRANTS, ETC.—The term ‘qualified medical innova-
21 tion expenses’ shall not include any amount to the
22 extent such amount is funded by any grant, con-
23 tract, or otherwise by another person (or any gov-
24 ernmental entity).

1 “(c) MEDICAL INNOVATION BASE PERIOD
2 AMOUNT.—For purposes of this section, the term ‘medical
3 innovation base period amount’ means the average annual
4 qualified medical innovation expenses paid by the taxpayer
5 during the 3-taxable year period ending with the taxable
6 year immediately preceding the first taxable year of the
7 taxpayer beginning after December 31, 1998.

8 “(d) SPECIAL RULES.—

9 “(1) LIMITATION ON FOREIGN TESTING.—No
10 credit shall be allowed under this section with re-
11 spect to any clinical testing research activities con-
12 ducted outside the United States.

13 “(2) CERTAIN RULES MADE APPLICABLE.—
14 Rules similar to the rules of subsections (f) and (g)
15 of section 41 shall apply for purposes of this section.

16 “(3) ELECTION.—This section shall apply to
17 any taxpayer for any taxable year only if such tax-
18 payer elects (at such time and in such manner as
19 the Secretary may by regulation prescribe) to have
20 this section apply for such taxable year.

21 “(4) COORDINATION WITH CREDIT FOR IN-
22 CREASING RESEARCH EXPENDITURES AND WITH
23 CREDIT FOR CLINICAL TESTING EXPENSES FOR CER-
24 TAIN DRUGS FOR RARE DISEASES.—Any qualified
25 medical innovation expense for a taxable year to

1 which an election under this section applies shall not
2 be taken into account for purposes of determining
3 the credit allowable under section 41 or 45C for
4 such taxable year.”

5 (b) GENERAL BUSINESS CREDIT.—Section 38(b) of
6 such Code (relating to current year business credit) is
7 amended by striking “plus” at the end of paragraph (11),
8 by striking the period at the end of paragraph (12) and
9 inserting “, plus”, and by adding at the end the following:

10 “(13) the medical innovation expenses credit
11 determined under section 41A(a).”

12 (c) DEDUCTION FOR UNUSED PORTION OF CRED-
13 IT.—Section 196(c) of such Code (defining qualified busi-
14 ness credits) is amended by striking “and” at the end of
15 paragraph (6), by striking the period at the end of para-
16 graph (7) and inserting “, and”, and by adding at the
17 end the following:

18 “(8) the medical innovation expenses credit de-
19 termined under section 41A(a).”

20 (d) CONFORMING AMENDMENT.—The table of sec-
21 tions for subpart D of part IV of subchapter A of chapter
22 1 of such Code is amended by adding after the item relat-
23 ing to section 41 the following:

“Sec. 41A. Credit for medical innovation expenses.”

1 (e) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 1998.

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