

106TH CONGRESS
1ST SESSION

H. R. 1682

To amend the Internal Revenue Code of 1986 to establish a permanent tax incentive for research and development, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MAY 4, 1999

Mr. WILSON (for herself, Mr. SKEEN, Mr. FORD, and Mr. UDALL of New Mexico) 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 establish a permanent tax incentive for research and development, and for other purposes.

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 This Act may be cited as the “Private Sector Re-
5 search and Development Investment Act of 1999”.

6 **SEC. 2. PERMANENT EXTENSION OF RESEARCH CREDIT.**

7 (a) IN GENERAL.—Section 41 of the Internal Rev-
8 enue Code of 1986 (relating to credit for increasing re-
9 search activities) is amended by striking subsection (h).

1 (b) CONFORMING AMENDMENT.—Section 45C(b)(1)
 2 of the Internal Revenue Code of 1986 is amended by strik-
 3 ing subparagraph (D).

4 (c) EFFECTIVE DATE.—The amendments made by
 5 this section shall apply to amounts paid or incurred after
 6 June 30, 1999.

7 **SEC. 3. IMPROVED ALTERNATIVE INCREMENTAL CREDIT.**

8 (a) IN GENERAL.—Section 41 of the Internal Rev-
 9 enue Code of 1986 (relating to credit for increasing re-
 10 search activities), as amended by section 2, is amended
 11 by adding at the end the following new subsection:

12 “(h) ELECTION OF ALTERNATIVE INCREMENTAL
 13 CREDIT.—

14 “(1) IN GENERAL.—At the election of the tax-
 15 payer, the credit under subsection (a)(1) shall be de-
 16 termined under this section by taking into account
 17 the modifications provided by this subsection.

18 “(2) DETERMINATION OF BASE AMOUNT.—

19 “(A) IN GENERAL.—In computing the base
 20 amount under subsection (c)—

21 “(i) notwithstanding subsection (c)(3),
 22 the fixed-base percentage shall be equal to
 23 80 percent of the percentage which the ag-
 24 gregate qualified research expenses of the
 25 taxpayer for the base period is of the ag-

1 aggregate gross receipts of the taxpayer for
2 the base period, and

3 “(ii) the minimum base amount under
4 subsection (c)(2) shall not apply.

5 “(B) START-UP AND SMALL TAXPAYERS.—

6 In computing the base amount under subsection
7 (c), the gross receipts of a taxpayer for any tax-
8 able year in the base period shall be treated as
9 at least equal to \$1,000,000.

10 “(C) BASE PERIOD.—For purposes of this
11 subsection, the base period is the 8-taxable year
12 period preceding the taxable year (or, if shorter,
13 the period the taxpayer (and any predecessor)
14 has been in existence).

15 “(3) ELECTION.—An election under this sub-
16 section shall apply to the taxable year for which
17 made and all succeeding taxable years unless re-
18 voked with the consent of the Secretary.”

19 (b) CONFORMING AMENDMENT.—Section 41(c) of
20 the Internal Revenue Code of 1986 is amended by striking
21 paragraph (4) and by redesignating paragraphs (5) and
22 (6) as paragraphs (4) and (5), respectively.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to taxable years beginning after
25 December 31, 1999.

1 **SEC. 4. MODIFICATIONS TO CREDIT FOR BASIC RESEARCH.**

2 (a) ELIMINATION OF INCREMENTAL REQUIRE-
3 MENT.—

4 (1) IN GENERAL.—Paragraph (1) of section
5 41(e) of the Internal Revenue Code of 1986 (relat-
6 ing to credit allowable with respect to certain pay-
7 ments to qualified organizations for basic research)
8 is amended to read as follows:

9 “(1) IN GENERAL.—The amount of basic re-
10 search payments taken into account under sub-
11 section (a)(2) shall be determined in accordance with
12 this subsection.”

13 (2) CONFORMING AMENDMENTS.—

14 (A) Section 41(a)(2) of such Code is
15 amended by striking “determined under sub-
16 section (e)(1)(A)” and inserting “for the tax-
17 able year”.

18 (B) Section 41(e) of such Code is amended
19 by striking paragraphs (3), (4), and (5) and by
20 redesignating paragraphs (6) and (7) as para-
21 graphs (3) and (4), respectively.

22 (C) Section 41(e)(4) of such Code (as re-
23 designated by subparagraph (B)) is amended by
24 striking subparagraph (B) and by redesignating
25 subparagraphs (C), (D), and (E) as subpara-
26 graphs (B), (C), and (D), respectively.

1 (D) Clause (i) of section 170(e)(4)(B) of
 2 such Code is amended by striking “section
 3 41(e)(6)” and inserting “section 41(e)(3)”.

4 (b) BASIC RESEARCH.—

5 (1) SPECIFIC COMMERCIAL OBJECTIVE.—Sec-
 6 tion 41(e)(4) of the Internal Revenue Code of 1986
 7 (relating to definitions and special rules), as redesign-
 8 nated by subsection (a)(2)(B), is amended by adding
 9 at the end the following new subparagraph:

10 “(E) SPECIFIC COMMERCIAL OBJECTIVE.—

11 For purposes of subparagraph (A), research
 12 shall not be treated as having a specific com-
 13 mercial objective if the results of such research
 14 are to be published in a timely manner as to be
 15 available to the general public prior to their use
 16 for a commercial purpose.”

17 (2) EXCLUSIONS FROM BASIC RESEARCH.—

18 Clause (ii) of section 41(e)(4)(A) of such Code (re-
 19 lating to definitions and special rules), as redesign-
 20 nated by subsection (a), is amended to read as fol-
 21 lows:

22 “(ii) basic research in the arts and
 23 humanities.”

24 (c) EXPANSION OF CREDIT TO RESEARCH DONE AT
 25 FEDERAL LABORATORIES.—Section 41(e)(3) of the Inter-

1 nal Revenue Code of 1986, as redesignated by subsection
 2 (a), is amended by adding at the end the following new
 3 subparagraph:

4 “(E) FEDERAL LABORATORIES.—Any or-
 5 ganization which is a Federal laboratory (as de-
 6 fined in section 4(6) of the Stevenson-Wydler
 7 Technology Innovation Act of 1980 (15 U.S.C.
 8 3703(6)).”

9 (d) EFFECTIVE DATE.—The amendments made by
 10 this section shall apply to taxable years beginning after
 11 December 31, 1999.

12 **SEC. 5. CREDIT FOR EXPENSES ATTRIBUTABLE TO CER-**
 13 **TAIN COLLABORATIVE RESEARCH CON-**
 14 **SORTIA.**

15 (a) CREDIT FOR EXPENSES ATTRIBUTABLE TO CER-
 16 TAIN COLLABORATIVE RESEARCH CONSORTIA.—Sub-
 17 section (a) of section 41 of the Internal Revenue Code of
 18 1986 (relating to credit for increasing research activities)
 19 is amended by striking “and” at the end of paragraph (1),
 20 by striking the period at the end of paragraph (2) and
 21 inserting “, and”, and by adding at the end the following
 22 new paragraph:

23 “(3) 20 percent of the amounts paid or in-
 24 curred by the taxpayer in carrying on any trade or
 25 business of the taxpayer during the taxable year (in-

1 cluding as contributions) to a qualified research con-
2 sortium.”

3 (b) QUALIFIED RESEARCH CONSORTIUM DE-
4 FINED.—Subsection (f) of section 41 of the Internal Rev-
5 enue Code of 1986 is amended by adding at the end the
6 following new paragraph:

7 “(6) QUALIFIED RESEARCH CONSORTIUM.—The
8 term ‘qualified research consortium’ means any
9 organization—

10 “(A) which is—

11 “(i) described in section 501(c)(3) and
12 is exempt from tax under section 501(a)
13 and is organized and operated primarily to
14 conduct scientific or engineering research,
15 or

16 “(ii) organized and operated primarily
17 to conduct scientific or engineering re-
18 search in the public interest (within the
19 meaning of section 501(c)(3)),

20 “(B) which is not a private foundation,

21 “(C) to which at least 5 unrelated persons
22 paid or incurred during the calendar year in
23 which the taxable year of the organization be-
24 gins amounts (including as contributions) to

1 such organization for scientific or engineering
2 research, and

3 “(D) to which no single person paid or in-
4 curred (including as contributions) during such
5 calendar year an amount equal to more than 50
6 percent of the total amounts received by such
7 organization during such calendar year for sci-
8 entific or engineering research.

9 All persons treated as a single employer under sub-
10 section (a) or (b) of section 52 shall be treated as
11 related persons for purposes of subparagraph (C)
12 and as a single person for purposes of subparagraph
13 (D).”

14 (c) CONFORMING AMENDMENT.—Paragraph (3) of
15 section 41(b) of the Internal Revenue Code of 1986 is
16 amended by striking subparagraph (C).

17 (d) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to taxable years beginning after
19 December 31, 1999.

20 **SEC. 6. IMPROVEMENT TO CREDIT FOR SMALL BUSINESSES**
21 **AND RESEARCH PARTNERSHIPS.**

22 (a) ASSISTANCE TO SMALL AND START-UP BUSI-
23 NESSES.—The Secretary of the Treasury or the Sec-
24 retary’s delegate shall take such actions as are appropriate
25 to—

1 (1) provide assistance to small and start-up
 2 businesses in complying with the requirements of
 3 section 41 of the Internal Revenue Code of 1986,
 4 and

5 (2) reduce the costs of such compliance.

6 (b) REPEAL OF LIMITATION ON CONTRACT RE-
 7 SEARCH EXPENSES PAID TO SMALL BUSINESSES, UNI-
 8 VERSITIES, AND FEDERAL LABORATORIES.—Section
 9 41(b)(3) of the Internal Revenue Code of 1986, as amend-
 10 ed by section 5(c), is amended by adding at the end the
 11 following new subparagraph:

12 “(C) AMOUNTS PAID TO ELIGIBLE SMALL
 13 BUSINESSES, UNIVERSITIES, AND FEDERAL
 14 LABORATORIES.—

15 “(i) IN GENERAL.—In the case of
 16 amounts paid by the taxpayer to an eligible
 17 small business, an institution of higher
 18 education (as defined in section 3304(f)),
 19 or an organization which is a Federal lab-
 20 oratory (as defined in subsection
 21 (e)(3)(E)), subparagraph (A) shall be ap-
 22 plied by substituting ‘100 percent’ for ‘65
 23 percent’.

24 “(ii) ELIGIBLE SMALL BUSINESS.—
 25 For purposes of this subparagraph, the

1 term ‘eligible small business’ means a
2 small business with respect to which the
3 taxpayer does not own (within the meaning
4 of section 318) 50 percent or more of—

5 “(I) in the case of a corporation,
6 the outstanding stock of the corpora-
7 tion (either by vote or value), and

8 “(II) in the case of a small busi-
9 ness which is not a corporation, the
10 capital and profits interests of the
11 small business.

12 “(iii) SMALL BUSINESS.—For pur-
13 poses of this subparagraph—

14 “(I) IN GENERAL.—The term
15 ‘small business’ means, with respect
16 to any calendar year, any person if
17 the annual average number of employ-
18 ees employed by such person during
19 either of the 2 preceding calendar
20 years was 500 or fewer. For purposes
21 of the preceding sentence, a preceding
22 calendar year may be taken into ac-
23 count only if the person was in exist-
24 ence throughout the year.

1 “(II) STARTUPS, CONTROLLED
2 GROUPS, AND PREDECESSORS.—Rules
3 similar to the rules of subparagraphs
4 (B) and (D) of section 220(c)(4) shall
5 apply for purposes of this clause.”

6 (c) CREDIT FOR PATENT FILING FEES.—Section
7 41(a) of the Internal Revenue Code of 1986, as amended
8 by section 5(a), is amended by striking “and” at the end
9 of paragraph (2), by striking the period at the end of para-
10 graph (3) and inserting “, and”, and by adding at the
11 end the following new paragraph:

12 “(4) 20 percent of the patent filing fees paid or
13 incurred by a small business (as defined in sub-
14 section (b)(3)(C)(iii)) to the United States or to any
15 foreign government in carrying on any trade or busi-
16 ness.”

17 (d) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to taxable years beginning after
19 December 31, 1999.

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