

113TH CONGRESS  
1ST SESSION

# H. R. 3428

To amend the Internal Revenue Code of 1986 to allow an increased credit for development and to extend and simplify the credit for increasing research.

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IN THE HOUSE OF REPRESENTATIVES

OCTOBER 30, 2013

Mr. MCKINLEY (for himself and Mr. ENYART) introduced the following bill;  
which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to allow an increased credit for development and to extend and simplify the credit for increasing research.

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. CREDIT FOR INCREASING DEVELOPMENT AC-**  
4 **TIVITIES.**

5 (a) IN GENERAL.—Subpart D of part IV of sub-  
6 chapter A of chapter 1 of the Internal Revenue Code of  
7 1986 is amended by inserting after section 41 the fol-  
8 lowing new section:

1 **“SEC. 41A. CREDIT FOR INCREASING DEVELOPMENT AC-**  
2 **TIVITIES.**

3 “(a) IN GENERAL.—For purposes of section 38, at  
4 the election of the taxpayer, the development credit deter-  
5 mined under this section for the taxable year shall be an  
6 amount equal to 30 percent of so much of the qualified  
7 development expenses for the taxable year as exceeds 50  
8 percent of the average qualified development expenses for  
9 the 3 taxable years preceding the taxable year for which  
10 the credit is being determined.

11 “(b) QUALIFIED DEVELOPMENT EXPENSES.—For  
12 purposes of this section—

13 “(1) IN GENERAL.—The term ‘qualified devel-  
14 opment expenses’ means the sum of the following  
15 amounts which are paid or incurred during the tax-  
16 able year in carrying on any trade or business of the  
17 taxpayer:

18 “(A) Any in-house development expenses.

19 “(B) Any contract development expenses.

20 “(2) IN-HOUSE DEVELOPMENT EXPENSES; CON-  
21 TRACT DEVELOPMENT EXPENSES.—The terms ‘in-  
22 house development expenses’ and ‘contract develop-  
23 ment expenses’ shall have the respective meaning  
24 given such terms in paragraphs (2) and (3) of sec-  
25 tion 41(b), except such paragraphs shall be applied

1 by substituting ‘qualified development’ for ‘qualified  
2 research’.

3 “(c) QUALIFIED DEVELOPMENT.—The term ‘quali-  
4 fied development’ means the systematic application of  
5 knowledge or understanding directed toward the produc-  
6 tion of useful material, devices, and systems or methods,  
7 including design, development, and improvement of proto-  
8 types and new processes to meet specific requirements.  
9 For purposes of the preceding sentence the rules of sub-  
10 paragraphs (A), (B), and (C) of section 41(d)(1) shall  
11 apply with respect to any development taken into account  
12 under this section.

13 “(d) SPECIAL RULE IN CASE OF NO QUALIFIED DE-  
14 VELOPMENT EXPENSES IN ANY OF 3 PRECEDING  
15 YEARS.—

16 “(1) TAXPAYERS TO WHICH THIS SUBPARA-  
17 GRAPH APPLIES.—The credit under this section shall  
18 be determined under this subsection if the taxpayer  
19 has no qualified development expenses in any one of  
20 the 3 taxable years preceding the taxable year for  
21 which the credit is being determined.

22 “(2) CREDIT RATE.—The credit determined  
23 under this subparagraph shall be equal to 12 per-  
24 cent of the qualified development expenses for the  
25 taxable year.

1       “(e) ELECTION.—An election under this section shall  
2 apply to the taxable year for which made and all suc-  
3 ceeding taxable years unless revoked with the consent of  
4 the Secretary.

5       “(f) OTHER SPECIAL RULES.—Rules similar to the  
6 rules of subsections (d)(4), (f), and (g) of section 41 shall  
7 apply for purposes of this section.

8       “(g) TERMINATION.—This section shall not apply to  
9 taxable years beginning after December 31, 2018.”.

10       (b) COORDINATION WITH SECTION 41.—Subsection  
11 (b) of section 41 of such Code is amended by adding at  
12 the end the following new paragraph:

13               “(5) COORDINATION WITH SECTION 41A.—In  
14 the case of any taxable year for which an election is  
15 in effect under section 41A, for purposes of deter-  
16 mining the amount of qualified research expenses for  
17 such taxable year and the fixed-base percentage with  
18 respect to such taxable year, qualified research ex-  
19 penses shall not include any qualified development  
20 expenses (as defined in subsection (b) of such sec-  
21 tion).”.

22       (c) COORDINATION WITH DEDUCTIONS.—Section  
23 280C is amended by adding at the end the following new  
24 subsection:

1       “(j) CREDIT FOR INCREASING DEVELOPMENT AC-  
2 TIVITIES.—

3           “(1) IN GENERAL.—No deduction shall be al-  
4 lowed for that portion of the qualified development  
5 expenses (as defined in section 41A(b)) otherwise al-  
6 lowable as a deduction for the taxable year which is  
7 equal to the amount of the credit determined for  
8 such taxable year under section 41A(a).

9           “(2) SIMILAR RULE WHERE TAXPAYER CAP-  
10 ITALIZES RATHER THAN DEDUCTS EXPENSES.—If—

11           “(A) the amount of the credit determined  
12 for the taxable year under section 41A(a), ex-  
13 ceeds

14           “(B) the amount allowable as a deduction  
15 for such taxable year for qualified development  
16 expenses (determined without regard to para-  
17 graph (1)),

18 the amount chargeable to capital account for the  
19 taxable year for such expenses shall be reduced by  
20 the amount of such excess.

21           “(3) ELECTION OF REDUCED CREDIT.—

22           “(A) IN GENERAL.—In the case of any  
23 taxable year for which an election is made  
24 under this paragraph—

1           “(i) paragraphs (1) and (2) shall not  
2           apply, and

3           “(ii) the amount of the credit under  
4           section 41A(a) shall be the amount deter-  
5           mined under subparagraph (B).

6           “(B) AMOUNT OF REDUCED CREDIT.—The  
7           amount of credit determined under this sub-  
8           paragraph for any taxable year shall be the  
9           amount equal to the excess of—

10           “(i) the amount of credit determined  
11           under section 41A(a) without regard to  
12           this paragraph, over

13           “(ii) the product of—

14           “(I) the amount described in  
15           clause (i), and

16           “(II) the maximum rate of tax  
17           under section 11(b)(1).

18           “(C) ELECTION.—An election under this  
19           paragraph for any taxable year shall be made  
20           not later than the time for filing the return of  
21           tax for such year (including extensions), shall  
22           be made on such return, and shall be made in  
23           such manner as the Secretary may prescribe.  
24           Such an election, once made, shall be irrev-  
25           ocable.



1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2013.

4 **SEC. 3. EXTENSION OF CREDIT FOR INCREASING RE-**  
5 **SEARCH ACTIVITIES.**

6 (a) IN GENERAL.—Subparagraph (B) of section  
7 41(h)(1) of the Internal Revenue Code of 1986 is amended  
8 by striking “December 31, 2013” and inserting “Decem-  
9 ber 31, 2018”.

10 (b) EFFECTIVE DATE.—The amendment made by  
11 this section shall apply to amounts paid or incurred after  
12 December 31, 2013.

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