

115TH CONGRESS  
1ST SESSION

# S. 2197

To amend the Internal Revenue Code of 1986 to reform the credit for increasing research activities, and for other purposes.

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IN THE SENATE OF THE UNITED STATES

DECEMBER 6, 2017

Ms. BALDWIN introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to reform the credit for increasing research activities, 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. INCREASE OF ALTERNATIVE SIMPLIFIED CRED-**

4 **IT.**

5 (a) IN GENERAL.—Subparagraph (A) of section  
6 41(c)(5) of the Internal Revenue Code of 1986 is amended  
7 by striking “14 percent (12 percent in the case of taxable  
8 years ending before January 1, 2009)” and inserting “20  
9 percent”.

1 (b) CONFORMING AMENDMENT.—Clause (ii) of sec-  
2 tion 41(c)(5)(B) of the Internal Revenue Code of 1986  
3 is amended by striking “6 percent” and inserting “10 per-  
4 cent”.

5 (c) EFFECTIVE DATE.—The amendments made by  
6 this section shall apply to taxable years beginning after  
7 December 31, 2017.

8 **SEC. 2. ALLOCATION OF RESEARCH EXPENSES AMONG**  
9 **BUSINESS COMPONENTS.**

10 (a) IN GENERAL.—Subparagraph (A) of section  
11 41(d)(2) of the Internal Revenue Code of 1986 is amended  
12 by inserting “, and may be applied using a method that  
13 relies on reasonable estimation techniques in lieu of con-  
14 temporaneous accounting to measure employee hours per  
15 business component” before the period.

16 (b) EFFECTIVE DATE.—The amendment made by  
17 this section shall apply to taxable years beginning after  
18 December 31, 2017.

19 **SEC. 3. INCLUSION OF QUALIFIED UPPER-LEVEL EMPLOY-**  
20 **EES IN RESEARCH EXPENSE CALCULATION.**

21 (a) IN GENERAL.—Clause (ii) of section 41(b)(2)(B)  
22 of the Internal Revenue Code of 1986 is amended by in-  
23 serting “, without regard to the employee’s position or  
24 management level” before the period.

1 (b) EFFECTIVE DATE.—The amendment made by  
 2 this section shall apply to taxable years beginning after  
 3 December 31, 2017.

4 **SEC. 4. REPEAL OF EXCLUSION OF ADAPTIVE RESEARCH.**

5 (a) IN GENERAL.—Paragraph (4) of section 41(d) of  
 6 the Internal Revenue Code of 1986 is amended by striking  
 7 subparagraph (B) and by redesignating subparagraphs  
 8 (C), (D), (E), (F), (G), and (H) as subparagraphs (B),  
 9 (C), (D), (E), (F), and (G), respectively.

10 (b) EFFECTIVE DATE.—The amendments made by  
 11 this section shall apply to taxable years beginning after  
 12 December 31, 2017.

13 **SEC. 5. INCLUSION OF COST REDUCTION RESEARCH.**

14 (a) IN GENERAL.—Subparagraph (A) of section  
 15 41(d)(3) of the Internal Revenue Code of 1986 is amend-  
 16 ed—

17 (1) by striking “or” at the end of clause (ii);

18 (2) by striking the period at the end of clause

19 (iii) and inserting “, or”; and

20 (3) by adding at the end the following new  
 21 clause:

22 “(iv) reduction of costs associated  
 23 with—

24 “(I) a business component of the  
 25 taxpayer, or

1 “(II) research relating to a pur-  
2 pose described in clause (i), (ii), or  
3 (iii).”.

4 (b) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to taxable years beginning after  
6 December 31, 2017.

7 **SEC. 6. INCLUSION OF OBSOLESCENCE MITIGATION.**

8 (a) IN GENERAL.—Clause (iv) of section 41(d)(3)(A)  
9 of the Internal Revenue Code of 1986, as added by section  
10 5, is amended by inserting “or obsolescence mitigation”  
11 after “reduction of costs”.

12 (b) EFFECTIVE DATE.—The amendment made by  
13 this section shall apply to taxable years beginning after  
14 December 31, 2017.

15 **SEC. 7. ELECTION OF REDUCED CREDIT MAY BE MADE ON**  
16 **AMENDED RETURN.**

17 (a) IN GENERAL.—Subparagraph (C) of section  
18 280C(c)(3) of the Internal Revenue Code of 1986 is  
19 amended to read as follows:

20 “(C) ELECTION.—An election under this  
21 paragraph shall made in such manner as the  
22 Secretary may prescribe and, once made with  
23 respect to a taxable year, shall be irrevocable.  
24 Such election may be made on the return of tax

1           for the taxable year to which it applies or on an  
2           amended return.”.

3           (b) **EFFECTIVE DATE.**—The amendment made by  
4 this section shall apply to amended returns which are per-  
5 mitted to be filed under the applicable provisions of the  
6 Internal Revenue Code of 1986 after the date of the enact-  
7 ment of this Act.

8 **SEC. 8. INVESTMENT IN CONNECTED MANUFACTURING**  
9 **EQUIPMENT.**

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 is amended by adding at the end the following new  
13 section:

14 **“SEC. 45S. CONNECTED MANUFACTURING EQUIPMENT.**

15          “(a) **AMOUNT OF CREDIT.**—For purposes of section  
16 38, the connected manufacturing equipment credit for any  
17 taxable year is an amount equal to 10 percent of the quali-  
18 fied connected manufacturing equipment expenditures  
19 made by the taxpayer during such year.

20          “(b) **QUALIFIED CONNECTED MANUFACTURING**  
21 **EQUIPMENT EXPENDITURES.**—

22               “(1) **IN GENERAL.**—Subject to paragraph (2),  
23 for purposes of this section, the term ‘qualified con-  
24 nected manufacturing equipment expenditures’

1 means an expenditure relating to the purchase or in-  
2 stallation of—

3 “(A) industrial equipment components  
4 which contain a microprocessor and can be con-  
5 nected to an electronic communication network,  
6 and

7 “(B) any software, routing, or local area  
8 network components necessary to connect com-  
9 ponents described in subparagraph (A) to an  
10 electronic communication network.

11 “(2) ELIGIBILITY.—The Secretary, in consulta-  
12 tion with the Secretary of Commerce, shall identify  
13 the types of components described in paragraph (1)  
14 which are eligible for the credit under this section.

15 “(c) BASIS ADJUSTMENT.—For purposes of this sub-  
16 title, if a credit is allowed under this section for any ex-  
17 penditure with respect to any property, the increase in the  
18 basis of such property which would (but for this sub-  
19 section) result from such expenditure shall be reduced by  
20 the amount of the credit so allowed.”.

21 (b) CONFORMING AMENDMENTS.—

22 (1) Section 38(b) of the Internal Revenue Code  
23 of 1986 is amended—

24 (A) by striking “plus” at the end of para-  
25 graph (35);

1 (B) by striking the period at the end of  
2 paragraph (36) and inserting “, plus”; and

3 (C) by adding at the end the following new  
4 paragraph:

5 “(37) the connected manufacturing equipment  
6 credit determined under section 45S(a).”.

7 (2) The table of sections for subpart D of part  
8 IV of subchapter A of chapter 1 of such Code is  
9 amended by adding at the end the following new  
10 item:

“Sec. 45S. Connected manufacturing equipment credit.”.

11 (c) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to taxable years beginning after  
13 December 31, 2018.

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