

105TH CONGRESS  
2D SESSION

# H. R. 4728

To amend the Internal Revenue Code of 1986 to provide an increased credit  
for medical research.

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## IN THE HOUSE OF REPRESENTATIVES

OCTOBER 7, 1998

Mr. WATKINS 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 provide  
an increased credit for medical 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. INCREASED CREDIT FOR MEDICAL RESEARCH.**

4       (a) IN GENERAL.—Section 41 of the Internal Reve-  
5       nue Code of 1986 (relating to credit for increasing re-  
6       search activities) is amended by adding at the end the fol-  
7       lowing new subsection:

8       “(i) INCREASED CREDIT FOR MEDICAL RE-  
9       SEARCH.—

1 “(1) GENERAL RULE.—Subsection (a) of this  
2 section shall be applied by substituting—

3 “(A) ‘40 percent’ for ‘20 percent’ in para-  
4 graph (1) thereof with respect to qualified med-  
5 ical research expenses, and

6 “(B) ‘medical research base amount’ for  
7 ‘base amount’.

8 “(2) QUALIFIED MEDICAL RESEARCH EX-  
9 PENSES.—For purposes of this subsection—

10 “(A) IN GENERAL.—The term ‘qualified  
11 medical research expenses’ means qualified re-  
12 search expenses—

13 “(i) incurred for research in, or rea-  
14 sonably expected to lead to, the develop-  
15 ment of any medical product for the pre-  
16 vention, cure, or alleviation of human dis-  
17 ease, sickness, or injury, and

18 “(ii) incurred before the earliest of—

19 “(I) the date on which an appli-  
20 cation with respect to such product is  
21 approved under section 505(b) or  
22 505A of the Federal Food, Drug, and  
23 Cosmetic Act,

24 “(II) the date on which a license  
25 for such product is approved under

1 section 351 of the Public Health Serv-  
2 ice Act, or

3 “(III) the later of the date classi-  
4 fication of such product as intended  
5 for human use is made under section  
6 513 of the Federal Food, Drug, and  
7 Cosmetic Act or the date of approval  
8 of such product as intended for  
9 human use is granted under section  
10 515 of such Act.

11 “(B) EXCLUSION OF RESEARCH AFTER  
12 COMMERCIAL PRODUCTION NOT TO APPLY.—  
13 For purposes of this paragraph, the term  
14 ‘qualified research expenses’ shall be deter-  
15 mined without regard to subsection (d)(4)(A).

16 “(C) SPECIAL RULE FOR CERTAIN TEST-  
17 ING.—The term ‘qualified medical research ex-  
18 penses’ includes qualified research expenses for  
19 preclinical and clinical testing occurring after  
20 the earliest date under subparagraph (A)(ii) if  
21 the purpose of such testing is to develop new  
22 functional uses (including pediatric studies as  
23 described in section 355A(g) of the Federal  
24 Food, Drug, and Cosmetic Act), characteristics,

1 indications, combinations, dosages, or delivery  
2 forms to an existing product.

3 “(D) PRODUCT.—For purposes of this  
4 paragraph, the term ‘product’ means any drug,  
5 biologic, medical, or diagnostic test, or medical  
6 device.

7 “(3) MEDICAL RESEARCH BASE AMOUNT.—For  
8 purposes of this subsection—

9 “(A) IN GENERAL.—Except as provided in  
10 subparagraph (C), the term ‘medical research  
11 base amount’ means, with respect to any tax-  
12 able year, the average of the taxpayer’s quali-  
13 fied medical research expenses for those taxable  
14 years in the base period during which the tax-  
15 payer paid or incurred qualified medical re-  
16 search expenses. The Secretary may prescribe  
17 regulations providing that de minimis amounts  
18 of qualified medical research expenses shall be  
19 disregarded under the preceding sentence.

20 “(B) BASE PERIOD.—For purposes of sub-  
21 paragraph (A), the base period is the period  
22 consisting of—

23 “(i) the most recent taxable year end-  
24 ing at least 6 months before the taxable

1 year for which the medical research base  
2 amount is being determined, and

3 “(ii) the 4 taxable years preceding  
4 such most recent taxable year.

5 “(C) MEDICAL BASE PERIOD AMOUNT FOR  
6 FIRST 2 TAXABLE YEARS.—For each of the first  
7 2 taxable years during which the taxpayer pays  
8 or incurs qualified medical research expenses,  
9 the term ‘medical research base amount’ means  
10 60 percent of the taxpayer’s qualified medical  
11 research expenses for the taxable year for which  
12 such base period amount is determined.

13 “(4) RESEARCH CONDUCTED BY ACADEMIC AND  
14 MEDICAL INSTITUTIONS.—

15 “(A) IN GENERAL.—Subsection (b)(3)(A)  
16 shall be applied—

17 “(i) by substituting ‘100 percent’ for  
18 ‘65 percent’ with respect to amounts paid  
19 to a qualified academic institution for  
20 qualified research described in paragraph  
21 (2), and

22 “(ii) by substituting ‘85 percent’ for  
23 ‘65 percent’ with respect to amounts paid  
24 to a qualified nonprofit medical institution

1 for qualified research described in para-  
2 graph (2).

3 “(B) QUALIFIED ACADEMIC INSTITU-  
4 TION.—For purposes of this paragraph, the  
5 term ‘qualified academic institution’ means any  
6 of the following institutions:

7 “(i) EDUCATIONAL INSTITUTIONS.—  
8 Any institution described in section  
9 170(b)(1)(A)(ii) or (iii) which is owned or  
10 affiliated with an institution of higher edu-  
11 cation as described in section 3304(f).

12 “(ii) CANCER RESEARCH INSTITU-  
13 TIONS.—Any cancer research institution  
14 which is designated as a cancer center by  
15 the National Cancer Institute, is, or is  
16 owned by, an organization described in sec-  
17 tion 501(c)(3), is exempt from taxation  
18 under section 501(a), and is not a private  
19 foundation.

20 “(iii) NONPROFIT INDEPENDENT RE-  
21 SEARCH INSTITUTIONS.—Any not-for-prof-  
22 it, independent research institute which is  
23 described in section 501(c)(3), is exempt  
24 from taxation under section 501(a), and is

1 organized and operated exclusively for sci-  
2 entific or educational purposes.

3 “(C) QUALIFIED NONPROFIT MEDICAL IN-  
4 STITUTION.—For purposes of this paragraph,  
5 the term ‘qualified nonprofit medical institu-  
6 tion’ means any not-for-profit organization that  
7 is described in section 501(c)(3), is exempt  
8 from taxation under section 501(a) by reason of  
9 its operation of a hospital or medical or health  
10 activity, is not a private foundation, and is not  
11 a qualified academic institution.

12 “(5) ELECTION OF ALTERNATIVE INCREMEN-  
13 TAL MEDICAL RESEARCH CREDIT.—

14 “(A) IN GENERAL.—At the election of the  
15 taxpayer, the credit determined under this sub-  
16 section shall be the sum of—

17 “(i) 1.65 percent of so much of the  
18 taxpayer’s qualified medical research ex-  
19 penses for the taxable year as exceeds 1  
20 percent of the gross receipts of the tax-  
21 payer for the year but does not exceed 1.5  
22 percent of such gross receipts,

23 “(ii) 2.2 percent of so much of such  
24 expenses as exceeds 1.5 percent of such

1 gross receipts but does not exceed 2 per-  
2 cent of such gross receipts, and

3 “(iii) 2.75 percent of so much of such  
4 expenses as exceeds 2 percent of such re-  
5 ceipts.

6 “(B) ELECTION.—An election under this  
7 subsection shall apply only to the taxable year  
8 for which made.

9 “(6) COORDINATION.—In determining the  
10 amount of the credit allowed by subsection (a) for  
11 expenses which are not allowed the increased credit  
12 under this subsection—

13 “(A) the amount of qualified research ex-  
14 penses shall be computed by excluding qualified  
15 medical research expenses for which the in-  
16 creased credit determined under this subsection  
17 is allowed;

18 “(B) the base amount determined under  
19 paragraph (1) of subsection (c) shall be com-  
20 puted by excluding qualified medical research  
21 expenses for which the increased credit deter-  
22 mined under this subsection is allowed from  
23 qualified research expenses for purposes of that  
24 computation; and



1           “(C) the alternative incremental credit de-  
2           termined under subsection (c)(4) shall be com-  
3           puted by excluding qualified medical research  
4           expenses for which the increased credit deter-  
5           mined under this subsection is allowed from  
6           qualified research expenses for purposes of that  
7           computation.”

8           (b) EFFECTIVE DATE.—The amendment made by  
9           this section shall apply to taxable years beginning after  
10          the date of the enactment of this Act.

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