

109TH CONGRESS  
2D SESSION

# S. 2199

To amend the Internal Revenue Code of 1986 to provide tax incentives to promote research and development, innovation, and continuing education.

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## IN THE SENATE OF THE UNITED STATES

JANUARY 26, 2006

Mr. DOMENICI (for himself, Mr. BINGAMAN, Mr. ALEXANDER, Ms. MIKULSKI, Mr. LUGAR, Mr. DODD, Mr. WARNER, Mr. OBAMA, Mr. BOND, Mr. LIEBERMAN, Mr. BURNS, Mrs. MURRAY, Mr. CRAIG, Mr. BAYH, Mrs. HUTCHISON, Ms. CANTWELL, Mr. DEWINE, Mr. MENENDEZ, Mr. THOMAS, Mr. KOHL, Mr. SMITH, Mr. KERRY, Mr. VOINOVICH, Mr. NELSON of Florida, Mr. ALLEN, Mr. LEAHY, Mr. TALENT, Mr. AKAKA, Mr. CHAMBLISS, Mrs. CLINTON, Mr. CORNYN, Ms. STABENOW, Mr. COLEMAN, Mr. DAYTON, Mr. MARTINEZ, Mr. SALAZAR, Mr. INOUE, Mr. STEVENS, Mr. BIDEN, Mr. COCHRAN, Mr. HAGEL, Ms. MURKOWSKI, Mr. PRYOR, Ms. COLLINS, Mr. VITTER, and Ms. LANDRIEU) 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 provide tax incentives to promote research and development, innovation, and continuing education.

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

1 **SECTION 1. SHORT TITLE.**

2       This Act may be cited as the “Protecting America’s  
3 Competitive Edge Through Tax Incentives Act of 2006”  
4 or the “PACE–Finance Act”.

5 **SEC. 2. EXPANSION OF CREDIT FOR RESEARCH AND DE-**  
6 **VELOPMENT.**

7       (a) CREDIT MADE PERMANENT.—

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

12           (2) CONFORMING AMENDMENT.—Paragraph (1)  
13 of section 45C(b) of such Code is amended by strik-  
14 ing subparagraph (D).

15           (3) EFFECTIVE DATE.—The amendments made  
16 by this subsection shall apply to amounts paid or in-  
17 curred after the date of the enactment of this Act,  
18 in taxable years ending after such date.

19       (b) CREDIT RATE DOUBLED.—Paragraphs (1) and  
20 (2) of section 41(a) of the Internal Revenue Code of 1986  
21 are each amended by striking “20 percent” and inserting  
22 “40 percent”.

23       (c) NEW REGULATIONS AND GUIDELINES AUTHOR-  
24 IZED.—The Secretary of the Treasury shall issue such  
25 regulations or guidelines as are necessary—

1 (1) to provide uniform conduct of tax audits re-  
 2 lating to the credit under section 41 of the Internal  
 3 Revenue Code of 1986, and

4 (2) to reflect the changing impact of technology  
 5 on the character of research and development, such  
 6 as use of databases provided by external parties and  
 7 the conduct of research and development through  
 8 joint ventures.

9 (d) EXPANSION OF CREDIT TO EXPENSES OF GEN-  
 10 ERAL COLLABORATIVE RESEARCH CONSORTIA.—Section  
 11 41 of the Internal Revenue Code of 1986 is amended—

12 (1) by striking “an energy research consor-  
 13 tium” in subsections (a)(3) and (b)(3)(C)(i) and in-  
 14 serting “a research consortium”,

15 (2) by striking “energy” each place it appears  
 16 in subsection (f)(6)(A),

17 (3) by inserting “or 501(c)(6)” after “section  
 18 501(c)(3)” in subsection (f)(6)(A)(i)(I), and

19 (4) by striking “ENERGY RESEARCH” in the  
 20 heading for subsection (f)(6)(A) and inserting “RE-  
 21 SEARCH”.

22 (e) STUDY OF FURTHER EXPANSION OF CREDIT.—  
 23 Not later than 180 days after the date of the enactment  
 24 of this Act, the Secretary of the Treasury shall study and  
 25 make recommendations in a report to the President, the

1 Committee on Finance of the Senate, and the Committee  
2 on Ways and Means of the House of Representatives on  
3 the following possible methods of expanding the scope of  
4 the credit under section 41 of the Internal Revenue Code  
5 of 1986:

6 (1) Modification of the credit to remove the in-  
7 cremental approach of measuring creditable research  
8 and development expenditures for taxpayers with  
9 significant and consistent annual research and devel-  
10 opment expenditures.

11 (2) Expansion of qualifying research and devel-  
12 opment expenditures to include—

13 (A) certain employee benefit costs related  
14 to qualifying wages,

15 (B) 100 percent of contract research costs,

16 (C) all expenditures which would qualify  
17 for treatment under section 174 of such Code,

18 (D) any other costs determined appro-  
19 priate by the Secretary.

20 (3) Reduction or elimination of limitation of  
21 credit under section 280C(c) of such Code.

22 (f) EFFECTIVE DATE.—Except as otherwise pro-  
23 vided, the amendments made by this section shall apply  
24 to taxable years beginning after December 31, 2005.

1 **SEC. 3. UNITED STATES-BASED INNOVATION INCENTIVES**  
2 **STUDY.**

3 (a) STUDY.—The Secretary of the Treasury, in con-  
4 sultation with the Director of the Office of Management  
5 and Budget, shall conduct an analysis of the United States  
6 tax system and its effect on this country as a location for  
7 innovation investment and related activities. The analysis  
8 shall include a comparison of the tax policies of other na-  
9 tions relating to long-term innovation investment and an  
10 examination of various features of the United States tax  
11 system, including—

12 (1) the treatment of capital gains, including the  
13 appropriate rate for very long-term investments or  
14 the appropriate allowance for loss write-offs,

15 (2) the overall corporate tax rate, and

16 (3) incentives for high-tech manufacturing and  
17 research equipment through tax credits and acceler-  
18 ated depreciation.

19 (b) REPORT.—Not later than 180 days after the date  
20 of the enactment of this Act, the Secretary of the Treasury  
21 shall report on the study and analysis described in sub-  
22 section (a) to the President, the Committee on Finance  
23 of the Senate, and the Committee on Ways and Means  
24 of the House of Representatives.

1 **SEC. 4. EMPLOYEE CONTINUING EDUCATION TAX CREDIT.**

2 (a) IN GENERAL.—Subpart D of part IV of sub-  
 3 chapter A of chapter 1 of the Internal Revenue Code of  
 4 1986 (relating to business related credits) is amended by  
 5 adding at the end the following new section:

6 **“SEC. 45N. EMPLOYEE CONTINUING EDUCATION CREDIT.**

7 “(a) AMOUNT OF CREDIT.—

8 “(1) IN GENERAL.—For purposes of section 38,  
 9 the employee continuing education credit determined  
 10 under this section with respect to any employer for  
 11 any taxable year is the applicable percentage of  
 12 qualified continuing education costs paid or incurred  
 13 by the employer during the calendar year ending  
 14 with or within such taxable year.

15 “(2) APPLICABLE PERCENTAGE.—For purposes  
 16 of this section, the applicable percentage is the per-  
 17 centage determined by the Secretary such that the  
 18 amount of the credit allowable under this section for  
 19 any calendar year does not exceed \$500,000,000.

20 “(b) QUALIFIED CONTINUING EDUCATION COSTS.—

21 For purposes of this section, the term ‘qualified con-  
 22 tinuing education costs’ means costs paid or incurred by  
 23 an employer for education to maintain or improve knowl-  
 24 edge or skills in science or engineering of an employee  
 25 whose employment requires knowledge or skills in science  
 26 or engineering.

1       “(c) REGULATIONS.—The Secretary may prescribe  
 2 such regulations as may be necessary or appropriate to  
 3 carry out the purposes of this section, including regula-  
 4 tions establishing standards for educational courses and  
 5 programs to which this section applies.”.

6       (b) CREDIT MADE PART OF GENERAL BUSINESS  
 7 CREDIT.—Section 38(b) of the Internal Revenue Code of  
 8 1986 is amended by striking “and” at the end of para-  
 9 graph (25), by striking the period at the end of paragraph  
 10 (26) and inserting “, and”, and by adding at the end the  
 11 following new paragraph:

12               “(27) the employee continuing education credit  
 13 determined under section 45N(a).”.

14       (c) DENIAL OF DOUBLE BENEFIT.—Section 280C of  
 15 the Internal Revenue Code of 1986 is amended by adding  
 16 at the end the following new subsection:

17       “(e) EMPLOYEE CONTINUING EDUCATION CREDIT.—  
 18 No deduction shall be allowed for that portion of the ex-  
 19 penses otherwise allowable as a deduction for the taxable  
 20 year which is equal to the amount of the credit determined  
 21 under section 45N(a).”.

22       (d) CLERICAL AMENDMENT.—The table of sections  
 23 for subpart D of part IV of subchapter A of chapter 1  
 24 of the Internal Revenue Code of 1986 is amended by add-  
 25 ing at the end the following new item:

“Sec. 45N. Employee continuing education credit.”.

1       (e) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to costs paid or incurred in taxable  
3 years beginning after December 31, 2005.

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