

109TH CONGRESS
1ST SESSION

S. 627

To amend the Internal Revenue Code of 1986 to permanently extend the research credit, to increase the rates of the alternative incremental credit, and to provide an alternative simplified credit for qualified research expenses.

IN THE SENATE OF THE UNITED STATES

MARCH 15, 2005

Mr. HATCH (for himself, Mr. BAUCUS, Mr. GRASSLEY, Mr. KYL, Mr. SMITH, Mr. SCHUMER, and Mr. KERRY) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to permanently extend the research credit, to increase the rates of the alternative incremental credit, and to provide an alternative simplified credit for qualified research expenses.

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 “Investment in America
5 Act of 2005”.

6 **SEC. 2. FINDINGS.**

7 Congress finds the following:

1 (1) Research and development performed in the
2 United States results in quality jobs, better and
3 safer products, increased ownership of technology-
4 based intellectual property, and higher productivity
5 in the United States.

6 (2) The extent to which companies perform and
7 increase research and development activities in the
8 United States is in part dependent on Federal tax
9 policy.

10 (3) Congress should make permanent a re-
11 search and development credit that provides a mean-
12 ingful incentive to all types of taxpayers.

13 **SEC. 3. PERMANENT EXTENSION OF RESEARCH CREDIT.**

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

17 (b) CONFORMING AMENDMENT.—Paragraph (1) of
18 section 45C(b) of such Code is amended by striking sub-
19 paragraph (D).

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to amounts paid or incurred after
22 the date of the enactment of this Act.

1 **SEC. 4. INCREASE IN RATES OF ALTERNATIVE INCRE-**
 2 **MENTAL CREDIT.**

3 (a) IN GENERAL.—Subparagraph (A) of section
 4 41(c)(4) of the Internal Revenue Code of 1986 (relating
 5 to election of alternative incremental credit) is amended—

6 (1) by striking “2.65 percent” and inserting “3
 7 percent”,

8 (2) by striking “3.2 percent” and inserting “4
 9 percent”, and

10 (3) by striking “3.75 percent” and inserting “5
 11 percent”.

12 (b) EFFECTIVE DATE.—The amendment made by
 13 this section shall apply to taxable years ending after the
 14 date of the enactment of this Act.

15 **SEC. 5. ALTERNATIVE SIMPLIFIED CREDIT FOR QUALIFIED**
 16 **RESEARCH EXPENSES.**

17 (a) IN GENERAL.—Subsection (c) of section 41 of the
 18 Internal Revenue Code of 1986 (relating to base amount)
 19 is amended by redesignating paragraphs (5) and (6) as
 20 paragraphs (6) and (7), respectively, and by inserting
 21 after paragraph (4) the following new paragraph:

22 “(5) ELECTION OF ALTERNATIVE SIMPLIFIED
 23 CREDIT.—

24 “(A) IN GENERAL.—At the election of the
 25 taxpayer, the credit determined under sub-
 26 section (a)(1) shall be equal to 12 percent of so

1 much of the qualified research expenses for the
2 taxable year as exceeds 50 percent of the aver-
3 age qualified research expenses for the 3 tax-
4 able years preceding the taxable year for which
5 the credit is being determined.

6 “(B) SPECIAL RULE IN CASE OF NO
7 QUALIFIED RESEARCH EXPENSES IN ANY OF 3
8 PRECEDING TAXABLE YEARS.—

9 “(i) TAXPAYERS TO WHICH SUBPARA-
10 GRAPH APPLIES.—The credit under this
11 paragraph shall be determined under this
12 subparagraph if the taxpayer has no quali-
13 fied research expenses in any 1 of the 3
14 taxable years preceding the taxable year
15 for which the credit is being determined.

16 “(ii) CREDIT RATE.—The credit de-
17 termined under this subparagraph shall be
18 equal to 6 percent of the qualified research
19 expenses for the taxable year.

20 “(C) ELECTION.—An election under this
21 paragraph shall apply to the taxable year for
22 which made and all succeeding taxable years
23 unless revoked with the consent of the Sec-
24 retary. An election under this paragraph may

1 not be made for any taxable year to which an
 2 election under paragraph (4) applies.”.

3 (b) COORDINATION WITH ELECTION OF ALTER-
 4 NATIVE INCREMENTAL CREDIT.—

5 (1) IN GENERAL.—Section 41(c)(4)(B) of the
 6 Internal Revenue Code of 1986 (relating to election)
 7 is amended by adding at the end the following: “An
 8 election under this paragraph may not be made for
 9 any taxable year to which an election under para-
 10 graph (5) applies.”.

11 (2) TRANSITION RULE.—In the case of an elec-
 12 tion under section 41(c)(4) of the Internal Revenue
 13 Code of 1986 which applies to the taxable year
 14 which includes the date of the enactment of this Act,
 15 such election shall be treated as revoked with the
 16 consent of the Secretary of the Treasury if the tax-
 17 payer makes an election under section 41(c)(5) of
 18 such Code (as added by subsection (a)) for such
 19 year.

20 (c) EFFECTIVE DATE.—The amendments made by
 21 this section shall apply to taxable years ending after the
 22 date of the enactment of this Act.

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