

AMENDMENT TO H.R. 4438
OFFERED BY MR. MCKINLEY OF WEST VIRGINIA

At the end, add the following:

1 **SEC. 3. CREDIT FOR INCREASING DEVELOPMENT ACTIVI-**
2 **TIES.**

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

7 **“SEC. 41A. CREDIT FOR INCREASING DEVELOPMENT AC-**
8 **TIVITIES.**

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

17 “(b) QUALIFIED DEVELOPMENT EXPENSES.—For
18 purposes of this section—

19 “(1) IN GENERAL.—The term ‘qualified devel-
20 opment expenses’ means the sum of the following

1 amounts which are paid or incurred during the tax-
2 able year in carrying on any trade or business of the
3 taxpayer:

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

5 “(B) Any contract development expenses.

6 “(2) IN-HOUSE DEVELOPMENT EXPENSES; CON-
7 TRACT DEVELOPMENT EXPENSES.—The terms ‘in-
8 house development expenses’ and ‘contract develop-
9 ment expenses’ shall have the respective meaning
10 given such terms in paragraphs (2) and (3) of sec-
11 tion 41(b), except such paragraphs shall be applied
12 by substituting ‘qualified development’ for ‘qualified
13 research’.

14 “(c) QUALIFIED DEVELOPMENT.—The term ‘quali-
15 fied development’ means the systematic application of
16 knowledge or understanding directed toward the produc-
17 tion of useful material, devices, and systems or methods,
18 including design, development, and improvement of proto-
19 types and new processes to meet specific requirements.
20 For purposes of the preceding sentence the rules of sub-
21 paragraphs (A), (B), and (C) of section 41(d)(1) shall
22 apply with respect to any development taken into account
23 under this section.

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

4 “(1) TAXPAYERS TO WHICH THIS SUBPARA-
5 GRAPH APPLIES.—The credit under this section shall
6 be determined under this subsection if the taxpayer
7 has no qualified development expenses in any one of
8 the 3 taxable years preceding the taxable year for
9 which the credit is being determined.

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

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

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

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

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

1 “(5) COORDINATION WITH SECTION 41A.—In
2 the case of any taxable year for which an election is
3 in effect under section 41A, for purposes of deter-
4 mining the amount of qualified research expenses for
5 such taxable year and the fixed-base percentage with
6 respect to such taxable year, qualified research ex-
7 penses shall not include any qualified development
8 expenses (as defined in subsection (b) of such sec-
9 tion).”.

10 (c) COORDINATION WITH DEDUCTIONS.—Section
11 280C is amended by adding at the end the following new
12 subsection:

13 “(j) CREDIT FOR INCREASING DEVELOPMENT AC-
14 TIVITIES.—

15 “(1) IN GENERAL.—No deduction shall be al-
16 lowed for that portion of the qualified development
17 expenses (as defined in section 41A(b)) otherwise al-
18 lowable as a deduction for the taxable year which is
19 equal to the amount of the credit determined for
20 such taxable year under section 41A(a).

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

23 “(A) the amount of the credit determined
24 for the taxable year under section 41A(a), ex-
25 ceeds

1 “(B) the amount allowable as a deduction
2 for such taxable year for qualified development
3 expenses (determined without regard to para-
4 graph (1)),
5 the amount chargeable to capital account for the
6 taxable year for such expenses shall be reduced by
7 the amount of such excess.

8 “(3) ELECTION OF REDUCED CREDIT.—

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

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

14 “(ii) the amount of the credit under
15 section 41A(a) shall be the amount deter-
16 mined under subparagraph (B).

17 “(B) AMOUNT OF REDUCED CREDIT.—The
18 amount of credit determined under this sub-
19 paragraph for any taxable year shall be the
20 amount equal to the excess of—

21 “(i) the amount of credit determined
22 under section 41A(a) without regard to
23 this paragraph, over

24 “(ii) the product of—

1 “(I) the amount described in
2 clause (i), and

3 “(II) the maximum rate of tax
4 under section 11(b)(1).

5 “(C) ELECTION.—An election under this
6 paragraph for any taxable year shall be made
7 not later than the time for filing the return of
8 tax for such year (including extensions), shall
9 be made on such return, and shall be made in
10 such manner as the Secretary may prescribe.
11 Such an election, once made, shall be irrev-
12 ocable.

13 “(4) CONTROLLED GROUPS.—Paragraph (3) of
14 subsection (b) shall apply for purposes of this sub-
15 section.”.

16 (d) PART OF GENERAL BUSINESS CREDIT.—Sub-
17 section (b) of section 38 of such Code is amended by strik-
18 ing “plus” at the end of paragraph (35), by striking the
19 period at the end of paragraph (36) and inserting “, plus”,
20 and by adding at the end the following new paragraph:

21 “(37) the development credit determined under
22 section 41A.”.

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

