

109TH CONGRESS
2D SESSION

S. _____

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

IN THE SENATE OF THE UNITED STATES

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, and Mr. MARTINEZ) introduced the following bill; which was read twice and referred to the Committee on

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,*

3 **SECTION 1. SHORT TITLE.**

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

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

3 (a) CREDIT MADE PERMANENT.—

4 (1) IN GENERAL.—Section 41 of the Internal
5 Revenue Code of 1986 (relating to credit for increas-
6 ing research activities) is amended by striking sub-
7 section (h).

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

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

15 (b) CREDIT RATE DOUBLED.—Paragraphs (1) and
16 (2) of section 41(a) of the Internal Revenue Code of 1986
17 is are each amended by striking “20 percent” and insert-
18 ing “40 percent”.

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

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

25 (2) to reflect the changing impact of technology
26 on the character of research and development, such

1 as use of databases provided by external parties and
2 the conduct of research and development through
3 joint ventures.

4 (d) EXPANSION OF CREDIT TO EXPENSES OF GEN-
5 ERAL COLLABORATIVE RESEARCH CONSORTIA.—Section
6 41 of the Internal Revenue Code of 1986 is amended—

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

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

12 (3) by inserting “or 501(c)(6)” after “section
13 501(c)(3)” in subsection (f)(6)(A)(i)(I), and

14 (4) by striking “ENERGY RESEARCH” in the
15 heading for subsection (f)(6)(A) and inserting “RE-
16 SEARCH” .

17 (e) STUDY OF FURTHER EXPANSION OF CREDIT.—

18 Not later than 180 days after the date of the enactment
19 of this Act, the Secretary of the Treasury shall study and
20 make recommendations in a report to the President, the
21 Committee on Finance of the Senate, and the Committee
22 on Ways and Means of the House of Representatives on
23 the following possible methods of expanding the scope of
24 the credit under section 41 of the Internal Revenue Code
25 of 1986:

1 (1) Modification of the credit to remove the in-
2 cremental approach of measuring creditable research
3 and development expenditures for taxpayers with
4 significant and consistent annual research and devel-
5 opment expenditures.

6 (2) Expansion of qualifying research and devel-
7 opment expenditures to include—

8 (A) certain employee benefit costs related
9 to qualifying wages,

10 (B) 100 percent of contract research costs,

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

13 (D) any other costs determined appro-
14 priate by the Secretary.

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

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

20 **SEC. 3. UNITED STATES-BASED INNOVATION INCENTIVES**
21 **STUDY.**

22 (a) STUDY.—The Secretary of the Treasury, in con-
23 sultation with the Director of the Office of Management
24 and Budget, shall conduct an analysis of the United States
25 tax system and its effect on this country as a location for

1 innovation investment and related activities. The analysis
2 shall include a comparison of the tax policies of other na-
3 tions relating to long-term innovation investment and an
4 examination of various features of the United States tax
5 system, including—

6 (1) the treatment of capital gains, including the
7 appropriate rate for very long-term investments or
8 the appropriate allowance for loss write-offs,

9 (2) the overall corporate tax rate, and

10 (3) incentives for high-tech manufacturing and
11 research equipment through tax credits and acceler-
12 ated depreciation.

13 (b) REPORT.—Not later than 180 days after the date
14 of the enactment of this Act, the Secretary of the Treasury
15 shall report on the study and analysis described in sub-
16 section (a) to the President, the Committee on Finance
17 of the Senate, and the Committee on Ways and Means
18 of the House of Representatives.

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

20 (a) IN GENERAL.—Subpart D of part IV of sub-
21 chapter A of chapter 1 of the Internal Revenue Code of
22 1986 (relating to business related credits) is amended by
23 adding at the end the following new section:

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

25 “(a) AMOUNT OF CREDIT.—

1 “(1) IN GENERAL.—For purposes of section 38,
2 the employee continuing education credit determined
3 under this section with respect to any employer for
4 any taxable year is the applicable percentage of
5 qualified continuing education costs paid or incurred
6 by the employer during the calendar year ending
7 with or within such taxable year.

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

13 “(b) QUALIFIED CONTINUING EDUCATION COSTS.—
14 For purposes of this section, the term ‘qualified con-
15 tinuing education costs’ means costs paid or incurred by
16 an employer for education to maintain or improve knowl-
17 edge or skills in science or engineering of an employee
18 whose employment requires knowledge or skills in science
19 or engineering.

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

1 (b) CREDIT MADE PART OF GENERAL BUSINESS
2 CREDIT.—Section 38(b) of the Internal Revenue Code of
3 1986 is amended by striking “and” at the end of para-
4 graph (25), by striking the period at the end of paragraph
5 (26) and inserting “, and”, and by adding at the end the
6 following new paragraph:

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

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

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

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

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

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