

117TH CONGRESS  
1ST SESSION

# H. R. 1304

To amend the Internal Revenue Code of 1986 to restore the deduction  
for research and experimental expenditures.

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## IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 24, 2021

Mr. LARSON of Connecticut (for himself, Mr. PANETTA, Ms. DELBENE, Mr.  
ESTES, Mr. LAHOOD, and Mr. ARRINGTON) 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 restore  
the deduction for research and experimental expenditures.

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 “American Innovation  
5 and R&D Competitiveness Act of 2021”.

6 **SEC. 2. RESEARCH AND EXPERIMENTAL EXPENDITURES.**

7 (a) IN GENERAL.—Section 174 of the Internal Rev-  
8 enue Code of 1986 is amended to read as follows:

9 **“SEC. 174. RESEARCH AND EXPERIMENTAL EXPENDITURES.**

10 **“(a) TREATMENT AS EXPENSES.—**

1           “(1) IN GENERAL.—A taxpayer may treat re-  
2           search or experimental expenditures which are paid  
3           or incurred by him during the taxable year in con-  
4           nection with his trade or business as expenses which  
5           are not chargeable to capital account. The expendi-  
6           tures so treated shall be allowed as a deduction.

7           “(2) WHEN METHOD MAY BE ADOPTED.—

8           “(A) WITHOUT CONSENT.—A taxpayer  
9           may, without the consent of the Secretary,  
10          adopt the method provided in this subsection  
11          for his first taxable year for which expenditures  
12          described in paragraph (1) are paid or incurred.

13          “(B) WITH CONSENT.—A taxpayer may,  
14          with the consent of the Secretary, adopt at any  
15          time the method provided in this subsection.

16          “(3) SCOPE.—The method adopted under this  
17          subsection shall apply to all expenditures described  
18          in paragraph (1). The method adopted shall be ad-  
19          hered to in computing taxable income for the taxable  
20          year and for all subsequent taxable years unless,  
21          with the approval of the Secretary, a change to a  
22          different method is authorized with respect to part  
23          or all of such expenditures.

24          “(b) AMORTIZATION OF CERTAIN RESEARCH AND  
25          EXPERIMENTAL EXPENDITURES.—

1           “(1) IN GENERAL.—At the election of the tax-  
2           payer, made in accordance with regulations pre-  
3           scribed by the Secretary, research or experimental  
4           expenditures which are—

5                   “(A) paid or incurred by the taxpayer in  
6                   connection with his trade or business,

7                   “(B) not treated as expenses under sub-  
8                   section (a), and

9                   “(C) chargeable to capital account but not  
10                  chargeable to property of a character which is  
11                  subject to the allowance under section 167 (re-  
12                  lating to allowance for depreciation, etc.) or sec-  
13                  tion 611 (relating to allowance for depletion),

14           may be treated as deferred expenses. In computing  
15           taxable income, such deferred expenses shall be al-  
16           lowed as a deduction ratably over such period of not  
17           less than 60 months as may be selected by the tax-  
18           payer (beginning with the month in which the tax-  
19           payer first realizes benefits from such expenditures).  
20           Such deferred expenses are expenditures properly  
21           chargeable to capital account for purposes of section  
22           1016(a)(1) (relating to adjustments to basis of prop-  
23           erty).

24           “(2) TIME FOR AND SCOPE OF ELECTION.—The  
25           election provided by paragraph (1) may be made for

1 any taxable year, but only if made not later than the  
2 time prescribed by law for filing the return for such  
3 taxable year (including extensions thereof). The  
4 method so elected, and the period selected by the  
5 taxpayer, shall be adhered to in computing taxable  
6 income for the taxable year for which the election is  
7 made and for all subsequent taxable years unless,  
8 with the approval of the Secretary, a change to a  
9 different method (or to a different period) is author-  
10 ized with respect to part or all of such expenditures.

11 The election shall not apply to any expenditure paid  
12 or incurred during any taxable year before the tax-  
13 able year for which the taxpayer makes the election.

14 “(c) LAND AND OTHER PROPERTY.—This section  
15 shall not apply to any expenditure for the acquisition or  
16 improvement of land, or for the acquisition or improve-  
17 ment of property to be used in connection with the re-  
18 search or experimentation and of a character which is sub-  
19 ject to the allowance under section 167 (relating to allow-  
20 ance for depreciation, etc.) or section 611 (relating to al-  
21 lowance for depletion); but for purposes of this section al-  
22 lowances under section 167, and allowances under section  
23 611, shall be considered as expenditures.

24 “(d) EXPLORATION EXPENDITURES.—This section  
25 shall not apply to any expenditure paid or incurred for

1 the purpose of ascertaining the existence, location, extent,  
2 or quality of any deposit of ore or other mineral (including  
3 oil and gas).

4 “(e) ONLY REASONABLE RESEARCH EXPENDITURES  
5 ELIGIBLE.—This section shall apply to a research or ex-  
6 perimental expenditure only to the extent that the amount  
7 thereof is reasonable under the circumstances.”.

8 (b) CLERICAL AMENDMENT.—The table of sections  
9 for part VI of subchapter B of chapter 1 of such Code  
10 is amended by striking the item relating to section 174  
11 and inserting the following new item:

“Sec. 174. Research and experimental expenditures”.

12 (c) CONFORMING AMENDMENTS.—

13 (1) Section 41(d)(1)(A) of such Code is amend-  
14 ed by striking “specified research or experimental  
15 expenditures under section 174” and inserting “ex-  
16 penses under section 174”.

17 (2) Section 280C(c) of such Code is amended to  
18 read as follows:

19 “(c) CREDIT FOR INCREASING RESEARCH ACTIVI-  
20 TIES.—

21 “(1) IN GENERAL.—No deduction shall be al-  
22 lowed for that portion of the qualified research ex-  
23 penses (as defined in section 41(b)) or basic re-  
24 search expenses (as defined in section 41(e)(2)) oth-  
25 erwise allowable as a deduction for the taxable year

1 which is equal to the amount of the credit deter-  
2 mined for such taxable year under section 41(a).

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

5 “(A) the amount of the credit determined  
6 for the taxable year under section 41(a)(1), ex-  
7 ceeds

8 “(B) the amount allowable as a deduction  
9 for such taxable year for qualified research ex-  
10 penses or basic research expenses (determined  
11 without regard to paragraph (1)),

12 the amount chargeable to capital account for the  
13 taxable year for such expenses shall be reduced by  
14 the amount of such excess.

15 “(3) ELECTION OF REDUCED CREDIT.—

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

19 “(i) paragraphs (1) and (2) shall not  
20 apply, and

21 “(ii) the amount of the credit under  
22 section 41(a) shall be the amount deter-  
23 mined under subparagraph (B).

24 “(B) AMOUNT OF REDUCED CREDIT.—The  
25 amount of credit determined under this sub-

1 paragraph for any taxable year shall be the  
2 amount equal to the excess of—

3 “(i) the amount of credit determined  
4 under section 41(a) without regard to this  
5 paragraph, over

6 “(ii) the product of—

7 “(I) the amount described in  
8 clause (i), and

9 “(II) the rate of tax under sec-  
10 tion 11(b).

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

19 “(4) CONTROLLED GROUPS.—Paragraph (3) of  
20 subsection (b) shall apply for purposes of this sub-  
21 section.”.

22 (d) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to amounts paid or incurred in tax-  
24 able years beginning after December 31, 2021.

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