

113TH CONGRESS  
1ST SESSION

# H. R. 2605

To amend the Internal Revenue Code of 1986 to allow a deduction for patent box profit from the use of United States patents.

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IN THE HOUSE OF REPRESENTATIVES

JUNE 28, 2013

Ms. SCHWARTZ 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 allow a deduction for patent box profit from the use of United States patents.

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 “Manufacturing Innova-  
5 tion in America Act of 2013”.

6 **SEC. 2. DEDUCTION FOR PATENT BOX PROFITS.**

7 (a) IN GENERAL.—Part VI of subchapter B of chap-  
8 ter 1 of the Internal Revenue Code of 1986 is amended  
9 by adding at the end the following new section:

1 **“SEC. 200. PATENT BOX PROFITS.**

2 “(a) ALLOWANCE OF DEDUCTION.—If the taxpayer  
3 elects the application of this section, there shall be allowed  
4 as a deduction an amount equal to 71 percent of the lesser  
5 of—

6 “(1) the patent box profit of the taxpayer for  
7 the taxable year, or

8 “(2) taxable income (determined without regard  
9 to this section) for the taxable year.

10 “(b) PATENT BOX PROFIT.—For purposes of this  
11 section—

12 “(1) IN GENERAL.—Except as provided by  
13 paragraph (9), the term ‘patent box profit’ means,  
14 with respect to a taxable year, IP profit multiplied  
15 by the ratio—

16 “(A) the numerator of which is the 5-year  
17 research and development expenditures of the  
18 taxpayer with respect to the taxable year, and

19 “(B) the denominator of which is the 5-  
20 year total costs of the taxpayer with respect to  
21 the taxable year.

22 “(2) IP PROFIT.—The term ‘IP profit’ means  
23 the excess (if any) of—

24 “(A) patent gross receipts, over

25 “(B) the sum of—

1           “(i) the taxpayer’s cost of goods sold  
2           for the taxable year that are properly allo-  
3           cable to patent gross receipts,

4           “(ii) other expenses, losses, or deduc-  
5           tions (other than the deduction allowed  
6           under this section), which are properly al-  
7           locable to patent gross receipts, plus

8           “(iii) routine profit.

9           “(3) ROUTINE PROFIT.—The term ‘routine  
10          profit’ means—

11           “(A) the taxpayer’s cost of goods sold for  
12           the taxable year properly allocable to patent  
13           gross receipts reduced by the portion of cost of  
14           goods sold related to the sum of cost of raw  
15           materials, cost of items purchased for resale,  
16           and amounts incurred for intangible property  
17           rights (including royalties and amortization),  
18           multiplied by

19           “(B) 15 percent.

20           “(4) ALLOCATION METHOD.—The Secretary  
21           shall prescribe rules for the proper allocation of  
22           items described in this paragraph for purposes of de-  
23           termining patent box profit. Such rules shall provide  
24           for the proper allocation of items whether or not

1 such items are directly allocable to patent gross re-  
2 ceipts.

3 “(5) SPECIAL RULES.—

4 “(A) DETERMINATION OF COSTS.—

5 “(i) IN GENERAL.—Cost shall be de-  
6 termined in accordance with the principles  
7 of sections 263A and 471, as provided for  
8 by the Secretary under regulations or other  
9 guidance.

10 “(ii) ITEMS BROUGHT INTO THE  
11 UNITED STATES.—For purposes of deter-  
12 mining cost of goods sold, any item or  
13 service brought into the United States  
14 shall be treated as acquired by purchase,  
15 and its cost shall be treated as not less  
16 than its value immediately after it entered  
17 the United States. A similar rule shall  
18 apply in determining the adjusted basis of  
19 leased or rented property where the lease  
20 or rental gives rise to patent gross re-  
21 ceipts.

22 “(iii) EXPORTS FOR FURTHER MANU-  
23 FACTURE.—In the case of any property de-  
24 scribed in clause (ii) that had been ex-  
25 ported by the taxpayer for further manu-

1           facture, the increase in cost or adjusted  
2           basis under subparagraph (A) shall not ex-  
3           ceed the difference between the value of  
4           the property when exported and the value  
5           of the property when brought back into the  
6           United States after the further manufac-  
7           ture.

8           “(B) 5-YEAR RESEARCH AND DEVELOP-  
9           MENT EXPENDITURES.—The term ‘5-year re-  
10          search and development expenditures’ means  
11          with respect to a taxable year the research and  
12          development expenditures paid or incurred by  
13          the taxpayer for the performance of research  
14          and development in the United States for which  
15          a deduction is allowed under subsection (a) or  
16          (b) of section 174 (determined without regard  
17          to section 41) for the 5-taxable-year period end-  
18          ing with the taxable year.

19          “(C) 5-YEAR TOTAL COSTS.—The term ‘5-  
20          year total costs’ means with respect to a taxable  
21          year the excess of—

22                 “(i) all costs paid or incurred by the  
23                 taxpayer for the 5-taxable year period end-  
24                 ing with such taxable year, over

25                 “(ii) the sum of—

1                   “(I) the taxpayer’s cost of goods  
2                   sold for such 5-taxable year period,

3                   “(II) interest paid or accrued for  
4                   such 5-taxable year period,

5                   “(III) taxes paid or accrued for  
6                   such 5-taxable year period, and

7                   “(IV) the net gain or loss for  
8                   such 5-taxable year period from the  
9                   sale or exchange of capital assets.

10                   “(D) RULES RELATING TO 5-YEAR PE-  
11                   RIOD.—For purposes of this paragraph—

12                   “(i) NOT IN EXISTENCE FOR ENTIRE  
13                   5-YEAR PERIOD.—If the taxpayer was not  
14                   in existence for the entire 5-year period re-  
15                   ferred to in subparagraphs (B) and (C),  
16                   such subparagraphs shall be applied on the  
17                   basis of the period during which such tax-  
18                   payer was in existence.

19                   “(ii) TREATMENT OF PREDE-  
20                   CESSORS.—Any reference in this para-  
21                   graph to a taxpayer shall include a ref-  
22                   erence to any predecessor of such taxpayer.

23                   “(6) PATENT GROSS RECEIPTS.—

24                   “(A) IN GENERAL.—The term ‘patent  
25                   gross receipts’ means gross receipts of the tax-

1 payer for the taxable year which are derived  
2 from the sale, lease, license, or other disposition  
3 of qualified patent property.

4 “(B) RELATED PERSONS.—

5 “(i) IN GENERAL.—The term ‘patent  
6 gross receipts’ shall not include any gross  
7 receipts of the taxpayer derived from prop-  
8 erty leased, licensed, or rented by the tax-  
9 payer for use by any related person.

10 “(ii) RELATED PERSON.—For pur-  
11 poses of clause (i), a person shall be treat-  
12 ed as related to another person if such per-  
13 sons are treated as a single employer  
14 under subsection (a) or (b) of section 52 or  
15 subsection (m) or (o) of section 414, ex-  
16 cept that determinations under subsections  
17 (a) and (b) of section 52 shall be made  
18 without regard to section 1563(b).

19 “(7) QUALIFIED PATENT PROPERTY.—

20 “(A) IN GENERAL.—The term ‘qualified  
21 patent property’ means property which is a  
22 product which incorporates a qualified patent or  
23 patents—

24 “(i) if more than a substantial per-  
25 centage of the value of the product is de-

1 rived from the direct or indirect use of one  
2 or more qualified patents, and

3 “(ii) the gross receipts of the taxpayer  
4 from the sale, lease, license, or other dis-  
5 position of the product are domestic pro-  
6 duction gross receipts under section  
7 199(c)(4).

8 “(B) SPECIAL RULE RELATING TO CON-  
9 TRACT MANUFACTURING.—For purposes of sub-  
10 paragraph (A)(ii), if the product was produced  
11 to the taxpayer’s specifications within the  
12 United States under a contract, the taxpayer’s  
13 gross receipts from the sale, lease, license or  
14 other disposition of the product shall be treated  
15 as domestic production gross receipts if the con-  
16 tract manufacturer certifies to the taxpayer  
17 that the contract manufacturer’s sale of such  
18 product to the taxpayer resulted in domestic  
19 production gross receipts of the contract manu-  
20 facturer.

21 “(C) DOMESTIC PRODUCTION GROSS RE-  
22 CEIPTS.—For purposes of this paragraph, the  
23 term ‘domestic production gross receipts’ has  
24 the meaning given such term by section  
25 199(c)(4), except that the term ‘United States’



1 as defined in subsection (d)(7) of this section  
2 shall be substituted for the term ‘United States’  
3 as used in such section.

4 “(8) QUALIFIED PATENT.—

5 “(A) IN GENERAL.—The term ‘qualified  
6 patent’ means a patent—

7 “(i) issued or extended by, or for  
8 which an application is pending before, the  
9 United States Patent and Trademark Of-  
10 fice under title 35, United States Code,

11 “(ii) with respect to which—

12 “(I) the taxpayer is the patent  
13 owner or the holder of an exclusive li-  
14 cense to exploit the patent within a  
15 specified territory or for a specific  
16 purpose,

17 “(II) the taxpayer is actively in-  
18 volved in the decisionmaking con-  
19 nected with exploiting the patent, and

20 “(III) either the taxpayer or a  
21 member of the affiliated group of  
22 which the taxpayer is a member per-  
23 formed substantial activity to develop  
24 the patented invention, its application,

1 or a product incorporating the pat-  
2 ented invention, and

3 “(iii) for any taxable year beginning  
4 after the third taxable year beginning after  
5 the date of the enactment of this section,  
6 more than a substantial percentage of the  
7 activity to develop the patented invention  
8 or its application occurs in the United  
9 States.

10 Clause (iii) shall not apply to a patent if a  
11 member of the taxpayer’s affiliated group per-  
12 formed more than a substantial percentage of  
13 the activity to develop the patent outside the  
14 United States prior to the end of such third  
15 taxable year, and the taxpayer owns the patent  
16 in the United States at the end of such third  
17 taxable year.

18 “(B) SPECIAL RULE FOR CERTAIN FOR-  
19 EIGN PATENTS.—If the taxpayer—

20 “(i) is the patent owner or the holder  
21 of an exclusive license to exploit a patent  
22 which meets the requirements of subpara-  
23 graph (A),

24 “(ii) is issued or extended by a foreign  
25 country a patent for the same or substan-

1 tially similar invention or application as  
2 the patent described in clause (i), and

3 “(iii) is the owner of, or the holder of  
4 an exclusive license to exploit, the foreign  
5 patent described in clause (ii),

6 then the foreign patent described in clause (ii)  
7 shall be treated as a qualified patent for pur-  
8 poses of this section.

9 “(C) SPECIAL RULES RELATING TO LI-  
10 CENSING.—

11 “(i) LICENSEE TAXPAYER.—In the  
12 case of a license of a patent to the licensee  
13 taxpayer, the patent shall not be treated as  
14 a qualified patent in the hands of the li-  
15 censee taxpayer unless the licensee satisfies  
16 the requirements of subparagraph (A)(ii)  
17 and the licensor—

18 “(I) certifies to the licensee (in  
19 such form and manner as the Sec-  
20 retary may prescribe) that the patent  
21 satisfies the requirements of clauses  
22 (i) and (iii) of subparagraph (A), and

23 “(II) provides to the licensee  
24 such information as the Secretary

1                   may require to determine whether the  
2                   patent is a qualified patent.

3                   “(ii) LICENSOR TAXPAYER.—In the  
4                   case of a license of a qualified patent by  
5                   the licensor taxpayer, the amount of royal-  
6                   ties, profit shares, and similar amounts re-  
7                   ceived from the license that directly relate  
8                   to the production of qualified patent prop-  
9                   erty by the licensee taxpayer shall be treat-  
10                  ed as patent gross receipts if—

11                   “(I) the licensor meets the re-  
12                  quirements of clause (i),

13                   “(II) the licensor developed or  
14                  acquired and added substantial value  
15                  to the qualified patent, but only so  
16                  long as the licensor is regularly en-  
17                  gaged in the development and addi-  
18                  tion of substantial value to property  
19                  of such kind, and

20                   “(III) the licensee certifies to the  
21                  licensor (in such form and manner as  
22                  the Secretary may prescribe) that the  
23                  royalty relates to the production of  
24                  qualified patent property by the li-  
25                  censee taxpayer.

1                   “(D) SPECIAL RULES RELATING TO PAT-  
2                   ENT CLAIMS DENIED OR RULED INVALID.—

3                   “(i) RECAPTURE.—If—

4                   “ (I) there is a recapture event  
5                   with respect to any claim contained in  
6                   a qualified patent, and

7                   “ (II) a deduction was allowed  
8                   under subsection (a) for any taxable  
9                   year with respect to such claim,

10                   the tax imposed by this chapter for the  
11                   taxable year in which such recapture event  
12                   occurs shall be increased by the recapture  
13                   amount.

14                   “(ii) RECAPTURE EVENT.—For pur-  
15                   poses of clause (i), the term ‘recapture  
16                   event’ means, with respect to a claim  
17                   that—

18                   “ (I) the patent does not issue on  
19                   the basis (in whole or in part) of such  
20                   claim, or

21                   “ (II) such claim is determined by  
22                   the United States Patent and Trade-  
23                   mark Office or a court of competent  
24                   jurisdiction not to be valid.

1           “(iii) RECAPTURE AMOUNT.—For  
2 purposes of clause (i), the recapture  
3 amount with respect to a claim is the sum  
4 of—

5                   “(I) the excess of the amount by  
6 which—

7                           “(aa) the total tax (deter-  
8 mined without regard to sub-  
9 section (a)) that would be shown  
10 on returns of tax of the taxpayer  
11 for all taxable years for which a  
12 deduction was allowed under sub-  
13 section (a) with respect to such  
14 claim, exceeds

15                           “(bb) the total tax shown on  
16 all returns of tax of the taxpayer  
17 for all taxable years for which a  
18 deduction was allowed under sub-  
19 section (a) with respect to such  
20 claim, determined with regard to  
21 subsection (a), plus

22                           “(II) in the case of a recapture  
23 event described in clause (ii)(I), inter-  
24 est at the underpayment rate estab-  
25 lished under section 6621 on the

1 amount determined under subclause  
2 (I) for each prior taxable year for the  
3 period beginning on the due date for  
4 filing the return for the prior taxable  
5 year involved.

6 “(9) ALTERNATIVE DETERMINATION OF PAT-  
7 ENT BOX PROFIT.—

8 “(A) IN GENERAL.—In accordance with  
9 regulations or other guidance provided by the  
10 Secretary, the taxpayer may elect to determine  
11 patent box profit as the amount equal to the  
12 net income derived from patent gross receipts  
13 related to exploitation of the qualified patent  
14 that would be received for the taxable year if all  
15 transactions of the taxpayer for the taxable  
16 year were conducted at arm’s length under the  
17 principles of section 482.

18 “(B) ELECTION.—An election under sub-  
19 paragraph (A) for a taxable year shall apply  
20 with respect to all qualified patents. Such elec-  
21 tion, once made, may be revoked only with the  
22 consent of the Secretary.

23 “(c) ALTERNATIVE METHOD FOR CERTAIN TAX-  
24 PAYERS.—In the case of a taxpayer which meets the  
25 \$5,000,000 gross receipts test of section 448(c) for the

1 taxable year, patent box profit shall be the greater of the  
2 amount determined under subsection (b) or 50 percent of  
3 IP profit.

4 “(d) DEFINITIONS AND SPECIAL RULES.—For pur-  
5 poses of this section—

6 “(1) APPLICATION OF SECTION TO PASS-THRU  
7 ENTITIES.—

8 “(A) PARTNERSHIPS AND S CORPORA-  
9 TIONS.—In the case of a partnership or S cor-  
10 poration—

11 “(i) the deduction under subsection  
12 (a) shall be determined at the partner or  
13 shareholder level,

14 “(ii) except as provided in clause (i),  
15 all determinations relating to receipts, ex-  
16 penses, and whether a patent is a qualified  
17 patent shall be made at the entity level,  
18 and

19 “(iii) each partner or shareholder  
20 shall take into account such person’s allo-  
21 cable share of each item described in  
22 clause (i) or (ii) of subsection (b)(2)(A)  
23 (determined without regard to whether the  
24 items described in such clause (i) exceed  
25 the items described in such clause (ii)).



1           “(B) TRUSTS AND ESTATES.—In the case  
2 of a trust or estate—

3           “(i) the items referred to in subpara-  
4 graph (A)(ii) (as determined therein) shall  
5 be apportioned between the beneficiaries  
6 and the fiduciary (and among the bene-  
7 ficiaries) under regulations prescribed by  
8 the Secretary, and

9           “(ii) for purposes of paragraph (2),  
10 adjusted gross income of the trust or es-  
11 tate shall be determined as provided in sec-  
12 tion 67(e) with the adjustments described  
13 in such paragraph.

14           “(C) APPLICATION TO INDIVIDUALS.—In  
15 the case of an individual, subsection (a)(2) shall  
16 be applied by substituting ‘adjusted gross in-  
17 come’ for ‘taxable income’. For purposes of the  
18 preceding sentence, adjusted gross income shall  
19 be determined—

20           “(i) after application of sections 86,  
21 135, 137, 199, 219, 221, 222, and 469,  
22 and

23           “(ii) without regard to this section.

24           “(D) AGRICULTURAL AND HORTI-  
25 CULTURAL COOPERATIVES.—

1           “(i) DEDUCTION ALLOWED TO PA-  
2           TRONS.—Any person who receives a quali-  
3           fied payment from a specified agricultural  
4           or horticultural cooperative shall be al-  
5           lowed for the taxable year in which such  
6           payment is received a deduction under sub-  
7           section (a) equal to the portion of the de-  
8           duction allowed under subsection (a) to  
9           such cooperative which is—

10                   “(I) allowed with respect to the  
11                   portion of the patent box profit to  
12                   which such payment is attributable,  
13                   and

14                   “(II) identified by such coopera-  
15                   tive in a written notice mailed to such  
16                   person during the payment period de-  
17                   scribed in section 1382(d).

18           “(ii) COOPERATIVE DENIED DEDUC-  
19           TION FOR PORTION OF QUALIFIED PAY-  
20           MENTS.—The taxable income of a specified  
21           agricultural or horticultural cooperative  
22           shall not be reduced under section 1382 by  
23           reason of that portion of any qualified pay-  
24           ment as does not exceed the deduction al-

1 lowable under clause (i) with respect to  
2 such payment.

3 “(iii) TAXABLE INCOME OF COOPERA-  
4 TIVES DETERMINED WITHOUT REGARD TO  
5 CERTAIN DEDUCTIONS.—For purposes of  
6 this section, the taxable income of a speci-  
7 fied agricultural or horticultural coopera-  
8 tive shall be computed without regard to  
9 any deduction allowable under subsection  
10 (b) or (c) of section 1382 (relating to pa-  
11 tronage dividends, per-unit retain alloca-  
12 tions, and nonpatronage distributions).

13 “(iv) SPECIAL RULE FOR MARKETING  
14 COOPERATIVES.—For purposes of this sec-  
15 tion, a specified agricultural or horti-  
16 cultural cooperative described in clause  
17 (vi)(II) shall be treated as having manufac-  
18 tured, produced, grown, or extracted in  
19 whole or significant part any qualifying  
20 production property marketed by the orga-  
21 nization which its patrons have so manu-  
22 factured, produced, grown, or extracted.

23 “(v) QUALIFIED PAYMENT.—For pur-  
24 poses of this paragraph, the term ‘qualified

1 payment' means, with respect to any per-  
2 son, any amount which—

3 “(I) is described in paragraph (1)  
4 or (3) of section 1385(a),

5 “(II) is received by such person  
6 from a specified agricultural or horti-  
7 cultural cooperative, and

8 “(III) is attributable to patent  
9 box profits with respect to which a de-  
10 duction is allowed to such cooperative  
11 under subsection (a).

12 “(vi) SPECIFIED AGRICULTURAL OR  
13 HORTICULTURAL COOPERATIVE.—For pur-  
14 poses of this paragraph, the term ‘specified  
15 agricultural or horticultural cooperative’  
16 means an organization to which part I of  
17 subchapter T applies which is the owner  
18 of, or the holder of an exclusive license to  
19 exploit, a qualified patent.

20 “(E) REGULATIONS.—The Secretary may  
21 prescribe rules requiring or restricting the allo-  
22 cation of items under this paragraph and may  
23 prescribe such reporting requirements as the  
24 Secretary determines appropriate.

1           “(2) SPECIAL RULE FOR AFFILIATED  
2 GROUPS.—

3           “(A) IN GENERAL.—All members of an ex-  
4 panded affiliated group shall be treated as a  
5 single corporation for purposes of this section.

6           “(B) EXPANDED AFFILIATED GROUP.—  
7 For purposes of this section, the term ‘ex-  
8 panded affiliated group’ means an affiliated  
9 group as defined in section 1504(a), deter-  
10 mined—

11           “(i) by substituting ‘more than 50  
12 percent’ for ‘at least 80 percent’ each place  
13 it appears, and

14           “(ii) without regard to paragraphs (2)  
15 and (4) of section 1504(b).

16           “(C) ALLOCATION OF DEDUCTION.—Ex-  
17 cept as provided in regulations, the deduction  
18 under subsection (a) shall be allocated among  
19 the members of the expanded affiliated group in  
20 proportion to each member’s respective amount  
21 (if any) of patent box profit.

22           “(3) COORDINATION WITH MINIMUM TAX.—For  
23 purposes of determining alternative minimum tax-  
24 able income under section 55—

1           “(A) patent box profit shall be determined  
2           without regard to any adjustments under sec-  
3           tions 56 through 59, and

4           “(B) in the case of a corporation, sub-  
5           section (a)(2) shall be applied by substituting  
6           ‘alternative minimum taxable income’ for ‘tax-  
7           able income’.

8           “(4) COORDINATION WITH DOMESTIC PRODUC-  
9           TION ACTIVITIES DEDUCTION.—This section shall be  
10          applied without regard to the deduction allowed  
11          under section 199.

12          “(5) UNRELATED BUSINESS TAXABLE IN-  
13          COME.—For purposes of determining the tax im-  
14          posed by section 511, subsection (a)(2) shall be ap-  
15          plied by substituting ‘unrelated business taxable in-  
16          come’ for ‘taxable income’.

17          “(6) ACQUISITIONS AND DISPOSITIONS.—The  
18          Secretary shall provide for the application of this  
19          subsection in cases where the taxpayer acquires, or  
20          disposes of, the major portion of a trade or business  
21          or the major portion of a separate unit of a trade  
22          or business during the taxable year.

23          “(7) UNITED STATES.—The term ‘United  
24          States’ includes the District of Columbia, Puerto  
25          Rico, the Virgin Islands, Guam, American Samoa,

1 the Commonwealth of the Northern Mariana Is-  
2 lands, the Federated States of Micronesia, the Re-  
3 public of the Marshall Islands, and Palau.

4 “(e) ELECTION.—

5 “(1) IN GENERAL.—The taxpayer may make an  
6 election to have this section apply for any taxable  
7 year.

8 “(2) PASS-THRU ENTITIES.—In the case of a  
9 pass-thru entity, the election shall be made at the  
10 partner or shareholder level.

11 “(3) REVOCATION.—An election under para-  
12 graph (1), once made, may be revoked only with the  
13 consent of the Secretary.

14 “(f) REGULATIONS.—The Secretary shall prescribe  
15 such regulations as may be appropriate to carry out this  
16 section, including regulations which prevent the abuse of  
17 the purposes of this section.”

18 (b) CONFORMING AMENDMENTS.—

19 (1) Section 56(d)(1)(A) of such Code is amend-  
20 ed by striking “deduction under section 199” both  
21 places it appears and inserting “deductions under  
22 sections 199 and 200”.

23 (2) Section 56(g)(4)(C) of such Code is amend-  
24 ed by adding at the end the following new clause:

1                   “(vii) DEDUCTION FOR DOMESTIC  
2                   BUSINESS INCOME.—Clause (i) shall not  
3                   apply to any amount allowable as a deduc-  
4                   tion under section 200.”.

5                   (3) The following provisions of such Code are  
6                   each amended by inserting “200,” after “199,”.

7                   (A) Section 86(b)(2)(A).

8                   (B) Section 135(c)(4)(A).

9                   (C) Section 137(b)(3)(A).

10                  (D) Section 219(g)(3)(A)(ii).

11                  (E) Section 221(b)(2)(C)(i).

12                  (F) Section 222 (b)(2)(C)(i).

13                  (G) Section 246(b)(1).

14                  (H) Section 469(i)(3)(F)(iii).

15                  (4) Section 163(j)(6)(A)(i) of such Code is  
16                  amended by striking “and” at the end of subclause  
17                  (III) and by inserting after subclause (IV) the fol-  
18                  lowing new subclause:

19                                 “(V) any deduction allowable  
20                                 under section 200, and”.

21                  (5) Section 170(b)(2)(C) of such Code is  
22                  amended by striking “and” at the end of clause (iv),  
23                  by striking the period at the end of clause (v) and  
24                  inserting “, and”, and by inserting after clause (v)  
25                  the following new clause:



1 “(vi) section 200.”

2 (6) Section 172(d) of such Code is amended by  
3 adding at the end the following new paragraph:

4 “(8) DOMESTIC BUSINESS INCOME.—The de-  
5 duction under section 200 shall not be allowed.”

6 (7) Section 199(c) of such Code is amended by  
7 adding at the end the following new paragraph:

8 “(8) COORDINATION WITH PATENT BOX PROF-  
9 ITS DEDUCTION.—Qualified production activities in-  
10 come, taxable income, and domestic production gross  
11 receipts shall be determined without regard to sec-  
12 tion 200.”

13 (8) Section 199(d)(2)(B) of such Code is  
14 amended by striking “this section” and inserting  
15 “this section and section 200”.

16 (9) Section 613(a) of such Code is amended by  
17 striking “deduction under section 199” and insert-  
18 ing “deductions under sections 199 and 200”.

19 (10) Section 613A(d)(1) of such Code is  
20 amended by redesignating subparagraphs (C), (D),  
21 and (E) as subparagraphs (D), (E), and (F), respec-  
22 tively, and by inserting after subparagraph (B) the  
23 following new subparagraph:

24 “(C) any deduction allowable under section  
25 200.”

1           (11) Section 1402(a) of such Code is amended  
2           by striking “and” at the end of paragraph (16), by  
3           redesignating paragraph (17) as paragraph (18),  
4           and by inserting after paragraph (16) the following  
5           new paragraph:

6           “(17) the deduction provided by section 200  
7           shall not be allowed; and”.

8           (c) CLERICAL AMENDMENT.—The table of sections  
9           for part VI of subchapter B of chapter 1 of such Code  
10          is amended by adding at the end the following new item:

        “Sec. 200. Patent box profits.”.

11          (d) EFFECTIVE DATE.—The amendments made by  
12          this section shall apply to taxable years beginning after  
13          the date of the enactment of this Act.

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