(A) which is --

(1) a furnace replacement burner designed to achieve a reduction in the amount of fuel consumed as a result of increased combustion efficiency,

(ii) a device for modifying flue openings designed to increase the efficiency of operation of the heating system,

(iii) an electrical or mechanical furnace ignition system, which replaces a gas pilot light,

(iv) a storm or thermal window or door for the exterior of the dwelling,

(v) an automatic energy-saving setback thermostat,

(vi) caulking or weatherstripping of an exterior door or window,

(vii) a meter which displays the cost of energy usage, or

(viii) an item of the kind which the Secretary specifies by regulations as increasing the energy efficiency of the dwelling,

(B) the original use of which begins with the taxpayer,

(C) which can reasonably be expected to remain in operation for at least 3 years, and

(D) which meets the performance and quality standard (if any) which --

(i) have been prescribed by the Secretary by regulations, and

(ii) are in effect at the time of the acquisition of the item.

(5) Renewable energy source property. -- The term "renewable energy source property" means property --

(A) which, when installed in connection with a dwelling, transmits or uses --

(i) solar energy, energy derived from the geothermal deposits (as a defined in section 613(e)(3)), or any other form of renewable energy which the Secretary specifies by regulations, for the purpose of heating or cooling such dwelling or providing hot water or electricity for use within such dwelling, or

(ii) wind energy for nonbusiness residential purposes,

(B) the original use of which begins with the taxpayer,

(C) which can reasonably be expected to remain in operation for at least 5 years, and

(D) which meets the performance and quality standards (it any) which --

(i) have been prescribed by the Secretary by regulations, and

(ii) are in effect at the time of the acquisition of the property.

(6) Regulations. --

(A) Criteria; certification procedures. -- The Secretary shall by regulations --

(i) establish the criteria which are to be used in (I) prescribing performance and quality standards under paragraphs (3), (4), and (5), or (II) specifying any item under paragraph (4)(A)(viii) or any form of renewable energy under paragraph (5)(A)(i), and

(ii) establish a procedure under which a manufacturer of an item may request the Secretary to certify that the item will be treated, for purposes of this section, as insulation, an energy-conserving component, or renewable energy source property.

(B) Consultation. -- Performance and quality standards regulations and other regulations shall be prescribed by the Secretary under paragraphs (3), (4), and (5) and under this paragraph only after consultation with the Secretary of Energy, the Secretary of Housing and Urban Development, and other appropriate federal officers.

(C) Action on requests. --

(i) In general. -- The Secretary shall make a final determination with respect to any request filed under subparagraph (A)(ii) for specifying an item under paragraph (4)(A)(viii) or for specifying a form of renewable energy under paragraph (5)(A)(i) within 1 year after the filing of the request, together with any information required to be filed with such request under subparagraph (A)(ii).

(ii) Reports. -- Each month the Secretary shall publish a report of any request which has been denied during the preceding month and the reasons for the denial.

(D) Effective date. --

(i) In general. -- In the case ;of any item or energy source specified under paragraph (4)(A)(viii) or (5)(A)(i), the credit allowed by subsection (a) shall supply with respect to expenditures which are made on or after the date on which final notice of such specification is published in the Federal Register.

(ii) Expenditures taken into account in following taxable years. -- The Secretary may prescribe by regulations that expenditures made on or after the date referred to in clause (i) and before the closes of the taxable year in which such date occurs shall be taken into account in the following taxable year.

(7) When expenditures made; amount of expenditures. --

(A) In general. -- Except as provided in subparagraph (B), an expenditure with respect to an item shall be treated as made when original installation of the item is completed.

(B) Renewable energy source expenditures. -- In the case

of renewable energy source expenditures in connection with the construction or reconstruction of a dwelling, such expenditures shall be treated as made when the original use of the constructed or reconstructed dwelling by the taxpayer begins.

(C) Amount,. -- The amount of any expenditure shall be the cost thereof.

(D) Allocation in certain cases. -- If less than 80 percent of the use of an item is for nonbusiness residential purposes, only that portion of the expenditures of such item which properly allocable to use for nonbusiness residential purposes shall be taken into account. For purposes of this subparagraph, use for a swimming pool shall be treated as use which is not for residential purposes.

(8) Principal residence. -- The determination of whether or not a dwelling unit is a taxpayer's principal residence shall be made under principles similar to those applicable to section 1034, except that --

(A) no ownership requirement shall be imposed, and

(B) the period for which a dwelling is treated as the principal residence of the taxpayer shall include the 30-day period ending on the first day on which it would (but for this subparagraph) be treated as his principal residence.

(9) Limitations on Secretarial authority. --

(A) In general. -- The Secretary shall not specify any item under paragraph (4)(A)(viii) or any form of renewable energy under paragraph (5)(A)(i) unless the Secretary determines that --

(i) there will be a reduction in oil or natural gas consumption as a result of such specification, and such reduction is sufficient to justify any resulting decrease in Federal revenues,

(ii) such specification will not resulting an increased use of any item which is known to be, or reasonably suspected to be, environmentally hazardous or a threat to public heath or safety, and

(iii) available federal subsidies do not make such specification unnecessary or inappropriate (in the light of the most advantageous allocation of economic resources).

(B) factors taken into account. -- In making any determination under subparagraph (A)(i), the Secretary (after consultation with the Secretary of Energy) --

(i) shall make an estimate of the amount by which the specification will reduce oil and natural gas consumption, and

(ii) shall determine whether such specification compares favorably, on the basis of the reduction in oil and natural gas consumption per dollar of cost the Federal Government (including revenue loss), with other Federal programs in existence or being proposed.

(C) Factor taken into account in making estimates. -- In making any estimate under subparagraph (B)(i), the Secretary shall take into account (among other factors) --

(i) the extent to which the use of any item will be increased as a result of the specification,

(ii) whether sufficient capacity is available to increase production to meet any increase in demand caused by such specification,

(iii) the amount of oil and natural gas used the manufacture of such item and other items necessary for its use, and

(iv) the estimated useful life of such item.

(10) Property financed by subsidized energy financing. --

(A) Reduction of qualified expenditures. -- For purposes of determining the amount of energy conservation or renewable energy source expenditures made by any individual with respect to any dwelling unit, there shall not be taken into account expenditures which are made form subsidized energy financing.

(B) Dollar limits reduced. -- Paragraph (1) or (2) of subsection (b) (whichever is appropriate) shall be applied with respect to such dwelling unit for any taxable year of such taxpayer by reducing each dollar amount contained in such paragraph (reduced as provided in subsection (b)(3)) by an amount equal to the sum of --

(i) the amount of the expenditures which were made by the taxpayer during such taxable year or any prior taxable year with respect to such dwelling unit and which were not taken into account by reason of subparagraph (A), and

(ii) the amount of any Federal, State, or local grant received by the taxpayer during such taxable year or any prior taxable year which was used to make energy conservation or renewable energy source expenditures with respect to the dwelling unit and which was not included in the gross income of such taxpayer.

(C) Subsidized energy financing. -- For purposes of subparagraph (A), the term "subsidized energy financing" means financing provided under a Federal, State, or local program a principal purpose of which is to provide subsidized financing for projects designed to conserve or produce energy.

(d) Special rules. -- For purposes of this section --

(1) Dollar amounts in case of joint occupancy. -- In the case of any dwelling unit which is jointly occupied and used during any calendar year as a principal residence by 2 or more individuals --

(A) the amount of credit allowable under subsection (a) by reason of energy conservation expenditures or by reason of renewable energy source expenditures (as the case may be) made during such calendar year by any of such individuals with

respect to such dwelling unit shall be determined by treating all of such individuals as one taxpayer whose taxable year is such calendar year and

(B) there shall be allowable with respect to such expenditures to each of such individuals a credit under subsection (a) for the taxable year in which such calendar year ends in an amount which bears the same ratio to the amount determined under subparagraph (A) as the amount of such expenditures made by such individual during such calendar year bears to the aggregate of such expenditures made by all of such individuals during such calendar year.

(2) Tenant-stockholder in cooperative housing corporation. -- In the case of an individual who is a tenant-stockholder (as defined in section 216) in a cooperative housing corporation (as defined in such section ), such individual shall be treated as having made his tenant-stockholder's proportionate share (as defined in section 216(b)(3)) of any expenditures of such corporation.

(3) Condominiums. --

(A) In general. -- In the case of an individual who is a member of a condominium management association with respect to a condominium which he owns, such individual shall be treated as having made his proportionate share of any expenditures of such association.

(B) Condominium management association. -- For purposes of this paragraph, the term "condominium management association" means an organization which meets the requirements of paragraph (1) of section 528(c) (other than subparagraph (E) thereof) with respect to a condominium project substantially all of the units of which are used as residences.

(4) Joint ownership of energy items. --

(A) In general. -- Any expenditure otherwise qualifying as an energy conservation expenditure or a renewable energy source expenditure shall not be treated as failing to so quality merely because such expenditure was made with respect to 2 or more dwelling units.

(B) Limits applied separately. -- In the case of any expenditure described in subparagraph (A), the amount of the credit allowable under subsection (a) shall (subject to paragraph (1)) be computed separately with respect to the amount of the expenditure made by each individual.

(5) 1977 expenditures allowed for 1978. --

(A) No credit for taxable years beginning before 1978. -- No credit shall be allowed under this section for any taxable year beginning before January 1, 1978.

(B) 1977 Expenditures allowed for 1978. -- In the case of the taxpayer's first taxable year beginning after December 31, 1977, this section shall be applied by taking into account the

period beginning April 20, 1977, and ending on the last day of such first taxable year.

(e) Basis adjustments. -- For purposes of this subtitle, if a credit is allowed under this section for any expenditure with respect to any property, the increase in the basis of such property which would (but for this subsection) result from such expenditure shall be reduced by the amount of the credit so allowed.

(f) Termination. -- This section shall not apply to expenditures made after December 31, 1985.

25. Interest on certain home mortgages

(a) Allowance of credit. --

(1) In general. -- There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the product of --

(A) the certificate credit rate, and

(B) the interest paid or accrued by the taxpayer during the taxable year on the remaining principal of the certified indebtedness amount.

(2) Limitation where credit rate exceeds 20 percent. --

(A) In general. -- If the certificate credit rate exceeds 20 percent, the amount of the credit allowed to the taxpayer under paragraph (1) for any taxable year shall not exceed $2,000.

(B) Special rule where 2 or more persons hold interests in residence. --

(b) Certificate credit rate; certified indebtedness amount. -- For purposes of this section --

(1) Certificate credit rate. -- The term "certificate credit rate" means the rate of the credit allowable by this section which is specified in the mortgage credit certificate.

(2) Certified indebtedness amount. -- The term "certified indebtedness amount" means the amount of indebtedness which is --

(A) incurred by the taxpayer -- (i) to acquire the principal residence of the taxpayer,

(ii) as a qualified rehabilitation loan (as defined in section 143(K)(5) with respect to such residence, and

(B) specified in the mortgage credit certificate.

(c) Mortgage credit certificate; qualified mortgage credit certificate program. --

For purposes of this section --

(1) Mortgage credit certificate. -- The term "mortgage credit certificate" means any certificate which --

(A) is issued under a qualified mortgage credit certificate program by the State or political subdivision having the authority to issue a qualified mortgage bond to provide

financing on the principal residence of the taxpayer,

(B) is issued to the taxpayer in connection with the acquisition, qualified rehabilitation, or qualified home improvement of the taxpayer's principal residence,

C) specifies --

(i) the certificate credit rate, and

(ii) the certified indebtedness amount, and

(D) is in such form as the Secretary may prescribe.

(2) Qualified mortgage credit certificate program. --

(A) In general. -- The term "qualified mortgage credit certificate program" means any program --

(i) which is established by a State or political subdivision thereof for any calendar year for which it is authorized to issue qualified mortgage bonds,

(ii) under which the issuing authority elects (in such manner and form as the Secretary may prescribe) not to issue an amount of private activity bonds which it may otherwise issue during such calendar year under section 146,

(iii) under which the indebtedness certified by mortgage credit certificates meets the requirements of the following subsections of section 143 (as modified by subparagraph (B) of this paragraph):

(I) subsection (c) (relating to residence requirements),

(II) subsection (d) (relating to 3-year requirement),

(III) subsection (e) (relating to purchase price requirement),

(IV) subsection (f) (relating to income requirements),

(V) subsection (h) (relating to portion of loans required to be placed in targeting areas), and

(VI) paragraph (1) of subsection (i) (relating to other requirements),

(iv) under which no mortgage credit certificate may be issued with respect to any residence any of the financing of which is provided from the proceeds of a qualified mortgage bond or a qualified veterans' mortgage bond,

(v) except to the extent provided in regulations, which is not limited to indebtedness incurred form particular lenders,

(vi) except to the extent provided in regulations, which provides that a mortgage credit certificate is not transferable, and

(vii) if the issuing authority allocates a block of mortgage credit certificates for ruse in connection with a particular development, which requires the developer to furnish to the issuing authority and the home buyer a certificate that the price for the residence is no higher than it would be without the use of a mortgage credit certificate.

Under regulations, rules similar to the rules of subparagraphs (B) and (C) of section 143(a)(2) shall apply to the requirements

of this subparagraph.

(B) Modifications of section 143. -- Under regulations prescribed by the Secretary, in applying section 143 for purposes of subclauses (II), (IV), and (V) of subparagraph (A)(iii) --

(i) each qualified mortgage certificate credit program shall be treated as a separate issue,

(ii) the product determined by multiplying --

(I) the certified indebtedness amount of each mortgage credit certificate issued under such program, by

(II) the certificate credit rate specified in such certificate,

shall be treated as proceeds of such issue and the sum of such products shall be treated as the total proceeds of such issue, and

(iii) paragraph (1) of section 143(d) shall be applied by substituting "100 percent" for "95-percent requirement of section 143(d)(1) and the Secretary is satisfied that such requirement will be met under such plan.

(d) Determination of certificate credit rate. -- For purposes of this section --

(1) In general. -- The certificate credit rate specified in any mortgage credit certificate shall not be less than 10 percent or more than 50 percent.

(2) Aggregate limit on certificate credit rates. --

(A) In general. -- In the case of each qualified mortgage credit certificate program, the sum of the products determined by multiplying --

(i) the certified indebtedness amount of each mortgage credit certificate issued under such program, by

(ii) the certificate credit rate with respect to such certificate,

shall not exceed 25 percent of the non issued bond amount.

(B) Non issued bond amount. -- For purposes of subparagraph (A), the term "non issued bond amount" means, with respect to any qualified mortgage credit certificate program, the amount of qualified mortgage bonds which the issuing authority is otherwise authorized to issue and elects not to issue under subsection (c)(2)(A)(ii).

(e) Special rules and definitions -- For purposes of this section. --

(1) Carry forward of unused credit. --

(A) In general -- If the credit allowable under subsection (a) for any taxable year exceeds the applicable tax limit for such taxable year, such excess shall be a carryover to each of the 3 succeeding taxable years and, subject to the limitations of subparagraph (B), shall be added to the credit allowable by subsection (a) for such succeeding taxable year.

(B) Limitation. -- The amount of the unused credit which may be taken into account under subparagraph (A) for any taxable year shall not exceed the amount (if any) by which the applicable tax limit for such taxable year exceeds the sum of --

(i) the credit allowable under subsection (a) for such taxable year determined without regard to this paragraph, and

(ii) the amounts which, by reason of this paragraph, are carried to such taxable year and are attributable to taxable years before the unused credit year.

(C) Applicable tax limit. -- For purposes of this paragraph, the term "applicable tax limit" means the limitation imposed by section 26(a) for the taxable year reduced by the sum of the credits allowable under this subpart (other than this section).

(2) Indebtedness not treated as certified where certain requirements not in fact met. -- Subsections (a) shall not apply to any indebtedness if all the requirements of subsections (c)(1), (d), (e), (f), and (i) ;of section 143 and clauses (iv), (v), and (vii) of subsection (c)(2)(A), were not in fact met with respect to such indebtedness. Except to the extent provided in regulations, the requirements described in the preceding sentence shall be treated as met if there is a certification, under penalty of perjury, that such requirements are met.

(3) Period for which certificate in effect. --

(A) In general. -- Except as provided in subparagraph (B), a mortgage credit certificate shall be treated as in effect with respect to interest attributable to the period --

(i) beginning on the date such certificate is issued, and

(ii) ending on the earlier of the date on which --

(I) the certificate is revoked by the issuing authority, or

(II) the residence to which such certificate relates ceases to be the principal residence of the individual to whom the certificate relates.

(B) Certificate invalid unless indebtedness incurred within certain period. -- A certificate shall not apply to any indebtedness which is incurred after the close of the second calendar year following the calendar year for which the issuing authority made the applicable election under subsection (c)(2)(A)(ii).

(C) Notice to Secretary when certificate revoked. -- Any issuing authority which revokes any mortgage credit certificate shall notify the Secretary of such revocation at such time and in such manner as the Secretary shall prescribe by regulations.

(4) Re issuance of mortgage credit certificates. -- The Secretary may prescribe regulations which allow the administrator of a mortgage credit certificate program to

reissue a mortgage credit certificate specifying a certified mortgage indebtedness specified on the original certificate to any taxpayer to whom the original certificate was issued, under such terms and conditions as the Secretary determines are necessary to ensure that the amount of the credit allowable under subsection (a) with respect to such reissued certificate is equal to or less than the amount of credit which would be allowable under subsection (a) with respect to the original certificate for any taxable year ending after such re-issuance.

(5) Public notice that certificates will be issued. -- At least 90 days before any mortgage credit certificate is to be issued after a qualified mortgage credit certificate program, the issuing authority shall provide reasonable public notice of --

(A) the eligibility requirements for such certificate,

(B) the methods by which such certificates are to be issued, and

(C) such other information as the Secretary may require.

(6) Interest paid or accrued to related persons. -- No credit shall be allowed under subsection (a) for any interest paid or accrued to a person who is a related person to the taxpayer (within the meaning of section 144(a)(3)(A)).

(7) Principal residence. -- The term "principal residence" has the same meaning as when used in section 1034.

(8) Qualified rehabilitation and home improvement. --

(A) Qualified rehabilitation. -- The term "qualified rehabilitation " has the meaning given such term by section 143(k)(5)(B).

(B) Qualified home improvement. -- The term "qualified home improvement" means an alteration, repair, or improvement described in section 143(k)(4).

(9) Qualified mortgage bond. -- The term "qualified mortgage bond" has the meaning given such term by section 143(a)(1).

(10) Manufactured housing. -- For purposes of this section, the term "single family residence" includes an manufactured home which has a minimum of 400 square feet of living space and a minimum width in excess of 102 inches and which is of a kind customarily used at a fixed location. Nothing in the preceding sentence shall be construed as providing that such a home will be taken into account in making determinations under section 143.

(f) Reduction in aggregate amount of qualified mortgage bonds which may be issued where certain requirements not met. --

(1) In general. -- If for any calendar year any mortgage credit certificate program which satisfies procedural requirements with respect to volume limitations prescribed by the Secretary fails to meet the requirements of paragraph (2) of

subsection (d), such requirements shall be treated as satisfied with respect to any certified indebtedness of such program, but the applicable State ceiling under subsection (d) of section 146 for the State in which such program operates shall be reduced by 1.25 times the correction amount with respect to such failure. Such reduction shall be applied to such State ceiling for the calendar year following the calendar year in which the Secretary determines the correction amount with respect to such failure.

(2) Correction amount. --

(A) In general. -- For purposes of paragraph (1), the term "correction amount" means an amount equal to the excess credit amount divided by 0.25.

(B) excess credit amount. --

(i) In general. -- For purposes of subparagraph (A)(ii), the term "excess credit amount" means the excess of --

(I) the credit amount for any mortgage credit certificate program, over (II) the amount which would have been the credit amount for such program had such program met the requirements of paragraph (2) of subsection (d).

(ii) Credit amount. -- For purposes of clause (i), the term "credit amount" means the sum of the products determined under clauses (i) and (ii) of subsection (d)(2)(A).

(3) Special rule for states having constitutional home rule cities. -- In the case of a State having one or more constitutional home rule cities (within the meaning of section 146(d)(3)(C))), the reduction in the State ceiling by reason of paragraph (1) shall be allocated to the constitutional home rule city, or to the portion of the State not within such city, whichever caused the reduction.

(4) Exception where certification program. -- The provisions of this subsection shall not apply in any case in which there is a certification program which is designed to ensure that the requirements of this section are met and which meets such requirements as the Secretary may by regulations prescribe.

(5) Waiver. -- The Secretary may waive the application of paragraph (1) in any case in which he determines that the failure is due to reasonable cause.

(g) Reporting requirements. -- Each person who makes a loan which is a certified indebtedness under any mortgage credit certificate shall file a report with the Secretary containing --

(1) the name, address, and social security account number of the individual to which the certificate was issued,

(2) the certificate's issuer, date of issue, certified indebtedness amount, and certificate credit rate, and

(3) such other information as the Secretary may require by regulations.

Each person who issues a mortgage credit certificate shall file a report showing such information as the Secretary shall by regulations prescribe. Any such report shall be filed at such time and in such manner as the secretary may require by regulations.

(h) Termination. -- No election may be made under subsection (c)(2)(A)(ii) for any period after June 30, 1992.

(i) Regulations. -- The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this section, including regulations which may require recipients of mortgage credit certificates to pay a reasonable processing fee to defray the expenses incurred in administering the program.

(2) Contracts. -- The Secretary is authorized to enter into contracts with any person to provide services in connection with the administration of this section.

(j) Recapture of portion of Federal subsidy form use of mortgage credit certificates

26. Limitation based on tax liability; definition of tax liability

(a) Limitation based on amount of tax. -- The aggregate amount of credits allowed by this subpart for the taxable year shall not exceed the excess (if any) of -- (1) the taxpayer's regular tax liability for the taxable year, over

(2) the tentative minimum tax for the taxable year (determined without regard to the alternative minimum tax foreign tax credit).

(b) regular tax liability. -- For purposes of this part --

(1) In general. -- The term "regular tax liability" means the tax imposed by this chapter for the taxable year.

(2) Exception for certain taxes. -- For purposes of paragraph (1), any tax imposed by any of the following provisions shall not be treated as tax imposed by this chapter:

(A) section 55 (relating to minimum tax),

(B) section 59A (relating to environmental tax),

(C) subsection (m)(5)(B), (q), (t), or (v) of section 72 (relating to additional taxes on certain distributions),

(D) section 143(m) (relating to recapture of proration of Federal subsidy from use of mortgage bonds and mortgage credit certificates),

(E) section 531 (relating to accumulated earnings tax),

(F) section 541 (relating to personal holding company tax),

(G) section 1351(d)(1) (relating to recoveries of foreign expropriation losses),

(H) section 1374 (relating to tax on certain built-in gains of S corporations),

(I) section 1375 (relating to tax imposed when passive investment income of corporation having subchapter C earnings and profits exceeds 25 percent of gross receipts),

(J) subparagraph (A) of section 7518(g)(6) (relating to non qualified withdrawals form capital construction funds taxed at highest marginal rate),

(K) sections 871(a) and 881 (relating to certain income of nonresident aliens and foreign corporations),

(L) section 860E(e) (relating to taxes with respect to certain residual interests),

(M) section 884 (relating to branch profits tax), and

(N) sections 453(l)(3) and 453A(c) (relating to interest on certain deferred tax liabilities).

(c) Tentative minimum tax. -- For purposes of this part, the term "tentative minimum tax" means the amount determined under section 55(b)(1).

27. Taxes of foreign countries and possessions of the United States; possession tax credit

(a) Foreign tax credit. -- The amount of taxes imposed by foreign countries and possessions of the United States shall be allowed as a credit against the tax imposed by this chapter to the extent provided in section 901.

(b) Section 936 credit. -- In the case of a domestic corporation, the amount provided by section 936 (relating to Puerto Rico and possession tax credit) shall be allowed as a credit against the tax imposed by this chapter.

28. Clinical testing expenses for certain drugs for rare diseases or conditions (a) General rule. -- There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 50 percent of the qualified clinical testing expenses for the taxable year.

(b) Qualified clinical testing expenses. -- For purposes of this section --

(1) Qualified clinical testing expenses. --

(A) In general. -- except as otherwise provided in this paragraph, the term "qualified clinical testing expenses" means the amounts which are paid or incurred by the taxpayer during the taxable year which would be described in subsection (b) of section 41 if such subsection were applied with the modifications set forth in subparagraph (B).

(B) Modifications. -- For purposes of subparagraph (A), subsection (b) of section 41 shall be applied --

(i) by substituting "clinical testing" for "qualified research" each place it appears in paragraphs (2) and 93) of such subsection, and

(ii) by substituting "100 percent" for "65 percent" in

paragraph (3)(A) of such subsection.

(C) Exclusion for amounts funded by grants, etc. -- The term "qualified clinical testing expenses" shall not include any amount to the extent such amount is funded by any grant, contract, or otherwise by another person (or any governmental entity).

(D) Special rule. -- For purposes of this paragraph, section 41 shall be deemed to remain in effect for periods after June 30, 1992.

(2) Clinical testing. --

(A) In general. -- The term "clinical testing" means any human clinical testing --

(i) which is carried out under an exemption for a drug being tested for a rare disease or condition under section 50(i) of the Federal Food, Drug, and Cosmetic Act (or regulations issued under such section),

(ii) which occurs --

(I) after the date such drug is designated under section 526 of such Act, and

(II) before the date on which an application with respect to such drug is approved under section 505 (b) or 507 of such Act or, if the drug is a biological product, before the date on which a license for such drug is issued under section 351 of the Public Health Service Act; and

(iii) which is conducted by or on behalf of the taxpayer to whom the designation under such section 526 applies.

(B) Testing must be related to use for rare disease or condition. --

Human clinical testing shall be taken into account under subparagraph (A) only to the extent such testing is related to the use of a drug for the rare disease or condition for which it was designated under section 526 of the Federal Food, Drug, and Cosmetic Act.

(e) Coordination with credit for increasing research expenditures. -- (1) In general. -- Except as provided in paragraph (2), any qualified clinical testing expenses for a taxable year to which an election under this section applies shall not be taken into account for purposes of determining the credit allowable under section 41 for such taxable year.

(2) Expenses included in determining base period research expenses. -- Any qualified clinical testing expenses for any taxable year which are qualified research expenses (within the meaning of section 41(b)) shall be taken into account in determining base period research expenses for purposes of applying section 41 to subsequent taxable years.

(d) Definition and special rules. --

(1) Rare disease or condition. -- For purposes of this section, the term "rare disease or condition" means any disease

or condition which --

(A) affects less than 200,000 persons in the United States, or

(B) affects more than 200,000 persons in the United States but for which there is no reasonable expectation that the cost of developing and making available in the United States a drug for such disease or condition will be recovered from sales in the United States of such drug.

Determinations under the preceding sentence with respect to any drug shall be made on the basis of the facts and circumstances as of the date such drug is designated under section 526 of the Federal Food, Drug, and Cosmetic Act.

(2) Limitation based on amount of tax. -- The credit allowed by this section for any taxable year shall not exceed the excess (if any) of --

(A) the regular tax (reduced by the sum of the credits allowable under subpart A and section 27), over

(B) the tentative minimum tax for the taxable year.

(3) Special limitations on foreign testing. --

(A) In general. -- No credit shall be allowed under this section with respect to any clinical testing conducted outside the United States unless --

(i) such testing is conducted outside the United States because there is an insufficient testing population in the United States, and

(ii) such testing is conducted by a United States person or by any other person who is not related to the taxpayer to whom the designation under section 526 of the Federal Food, Drug, and Cosmetic Act applies.

(B) Special limitation for corporations to which section 936 applies. --

No credit shall be allowed under this section with respect to any clinical testing conducted by a corporation to which an election under section 936 applies.

(4) Certain rules made applicable. -- Rules similar to the rules of paragraphs (1) and (2) of section 41(f) shall apply for purposes of this section.

(5) Election. -- This section shall apply to any taxpayer for any taxable year only if such taxpayer elects at such time and in such manner as the Secretary may by regulations prescribe) to have this section apply for such taxable year.

(e) Termination. -- This section shall not apply to any amount paid or incurred after June 30, 1992.