

104TH CONGRESS
1ST SESSION

H. R. 1918

To amend the Internal Revenue Code of 1986 to modify the exclusion of gain on certain small business stock.

IN THE HOUSE OF REPRESENTATIVES

JUNE 22, 1995

Mr. MATSUI (for himself and Mr. ENGLISH of Pennsylvania) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to modify the exclusion of gain on certain small business stock.

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 “Enterprise Capital
5 Formation Act of 1995”.

6 **SEC. 2. FINDINGS.**

7 The Congress hereby finds that—

8 (1) investments in small business venture cap-
9 ital stock should be encouraged because of both the

1 special risks and the social and economic benefits as-
2 sociated with such investments,

3 (2) the exclusion from income of gain on small
4 business venture capital stock is an important incen-
5 tive for individuals and corporations to invest in
6 such stock, and

7 (3) tax incentives for investments in capital as-
8 sets in general should be supplemented with an ef-
9 fective tax incentive for investments in small busi-
10 ness venture capital stock.

11 **SEC. 3. MODIFICATIONS TO EXCLUSION OF GAIN ON CER-**
12 **TAIN SMALL BUSINESS STOCK.**

13 (a) INCREASE IN EXCLUSION.—Subsection (a) of sec-
14 tion 1202 of the Internal Revenue Code of 1986 is amend-
15 ed by striking “50 percent” and inserting “75 percent”.

16 (b) EXCLUSION AVAILABLE TO CORPORATIONS.—

17 (1) IN GENERAL.—Subsection (a) of section
18 1202 of such Code is amended by striking “other
19 than a corporation”.

20 (2) TECHNICAL AMENDMENT.—Subsection (c)
21 of section 1202 of such Code is amended by adding
22 at the end the following new paragraph:

23 “(4) STOCK HELD AMONG MEMBERS OF CON-
24 TROLLED GROUP NOT ELIGIBLE.—Stock of a mem-
25 ber of a parent-subsidary controlled group (as de-

1 fined in subsection (d)(3)) shall not be treated as
2 qualified small business stock while held by another
3 member of such group.”

4 (c) REPEAL OF MINIMUM TAX PREFERENCE.—

5 (1) IN GENERAL.—Subsection (a) of section 57
6 of such Code is amended by striking paragraph (7).

7 (2) TECHNICAL AMENDMENT.—Subclause (II)
8 of section 53(d)(1)(B)(ii) of such Code is amended
9 by striking “, (5), and (7)” and inserting “and (5)”.

10 (d) STOCK OF LARGER BUSINESSES ELIGIBLE FOR
11 EXCLUSION.—

12 (1) Paragraph (1) of section 1202(d) of such
13 Code is amended by striking “\$50,000,000” each
14 place it appears and inserting “\$100,000,000”.

15 (2) Subsection (d) of section 1202 of such Code
16 is amended by adding at the end the following new
17 paragraph:

18 “(4) INFLATION ADJUSTMENT OF ASSET LIM-
19 ITATION.—In the case of stock issued in any calendar
20 year after 1996, the \$100,000,000 amount con-
21 tained in paragraph (1) shall be increased by an
22 amount equal to—

23 “(A) such dollar amount, multiplied by

24 “(B) the cost-of-living adjustment deter-
25 mined under section 1(f)(3) for the calendar

1 year in which the taxable year begins, deter-
2 mined by substituting ‘calendar year 1995’ for
3 ‘calendar year 1992’ in subparagraph (B)
4 thereof.

5 If any amount as adjusted under the preceding sen-
6 tence is not a multiple of \$10,000, such amount
7 shall be rounded to the nearest multiple of
8 \$10,000.’

9 (e) REPEAL OF PER-ISSUER LIMITATION.—Section
10 1202 of such Code is amended by striking subsection (b).

11 (f) OTHER MODIFICATIONS.—

12 (1) REPEAL OF WORKING CAPITAL LIMITA-
13 TION.—Paragraph (6) of section 1202(e) of such
14 Code is amended—

15 (A) by striking ‘within 2 years’ in sub-
16 paragraph (B), and

17 (B) by striking the last sentence.

18 (2) EXCEPTION FROM REDEMPTION RULES
19 WHERE BUSINESS PURPOSE.—Paragraph (3) of sec-
20 tion 1202(c) of such Code is amended by adding at
21 the end the following new subparagraph:

22 “(D) WAIVER WHERE BUSINESS PUR-
23 POSE.—A purchase of stock by the issuing cor-
24 poration shall be disregarded for purposes of
25 subparagraphs (A) and (B) if the issuing cor-

1 poration establishes that there was a business
2 purpose for such purchase and such purchase is
3 not inconsistent with the purposes of this sec-
4 tion.”

5 (g) EFFECTIVE DATE.—The amendments made by
6 this section shall apply to stock issued after December 31,
7 1994.

8 (h) ELECTION TO APPLY AMENDMENTS TO STOCK
9 ISSUED AFTER AUGUST 10, 1993.—

10 (1) IN GENERAL.—The amendments made by
11 this section shall apply to any qualified stock issued
12 after August 10, 1993, if the taxpayer elects to
13 apply such amendments with respect to such stock.

14 (2) QUALIFIED STOCK.—For purposes of para-
15 graph (1), the term “qualified stock” means stock—

16 (A) which is held by the taxpayer on De-
17 cember 31, 1994, and

18 (B) which was not qualified small business
19 stock (as defined section 1202(c) of the Inter-
20 nal Revenue Code of 1986) when issued but
21 which would be qualified small business stock
22 (as so defined) if the amendments made by this
23 section applied to stock issued after August 10,
24 1993.

1 (3) RECOGNITION OF GAIN.—For purposes of
2 the Internal Revenue Code of 1986—

3 (A) IN GENERAL.—Any qualified stock to
4 which the election under paragraph (1) applies
5 shall be treated—

6 (i) as having been sold on January 1,
7 1995, for an amount equal to its fair mar-
8 ket value on such date, and

9 (ii) as having been reacquired on such
10 date for an amount equal to such fair mar-
11 ket value.

12 The preceding sentence shall not apply for pur-
13 poses of determining whether the stock is quali-
14 fied small business stock (as so defined).

15 (B) TREATMENT OF GAIN OR LOSS.—

16 (i) Any gain resulting from subpara-
17 graph (A) shall be treated as received or
18 accrued on January 1, 1995, and shall be
19 recognized notwithstanding any provision
20 of the Internal Revenue Code of 1986.

21 (ii) Any loss resulting from subpara-
22 graph (A) shall not be allowed for any tax-
23 able year.

24 (4) ELECTION.—An election under paragraph
25 (1) shall be made in such manner as the Secretary

1 may prescribe and shall specify the stock for which
2 such election is made. Such an election, once made
3 with respect to any stock, shall be irrevocable.

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