

107TH CONGRESS
1ST SESSION

H. R. 3124

To amend the Internal Revenue Code of 1986 to provide that the special tax imposed on the recognition of built-in gain by an S corporation shall not apply to the extent such gain is reinvested in the business.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 12, 2001

Mr. RAMSTAD 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 provide that the special tax imposed on the recognition of built-in gain by an S corporation shall not apply to the extent such gain is reinvested in the business.

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 “Built-In Gain Eco-
5 nomic Growth Act of 2001”.

1 **SEC. 2. EXCEPTION FROM TAX ON RECOGNIZED BUILT-IN**
2 **GAIN OF S CORPORATIONS.**

3 (a) IN GENERAL.—Section 1374 of the Internal Rev-
4 enue Code of 1986 (relating to tax imposed on certain
5 built-in gains) is amended by redesignating subsection (e)
6 as subsection (f) and by inserting after subsection (d) the
7 following new subsection:

8 “(e) EXCEPTION FOR REINVESTED GAIN.—

9 “(1) IN GENERAL.—If an existing S corporation
10 has a net recognized built-in gain for any taxable
11 year in the recognition period and elects the applica-
12 tion of this subsection—

13 “(A) the tax (if any) imposed by sub-
14 section (a) on such gain shall not be imposed
15 until the second succeeding taxable year, and

16 “(B) the amount of such gain on which tax
17 is imposed by subsection (a) for such second
18 succeeding taxable year shall be only the
19 amount by which such gain exceeds—

20 “(i) the aggregate qualified expendi-
21 tures made by the S corporation during
22 nonrecognition period, reduced by

23 “(ii) any portion of such expenditures
24 previously taken into account under this
25 subsection.

1 “(2) QUALIFIED EXPENDITURES.—For pur-
2 poses of this subsection, the term ‘qualified expendi-
3 tures’ means—

4 “(A) amounts for which a deduction is al-
5 lowed under section 162,

6 “(B) amounts chargeable to capital ac-
7 count for property used in a trade or business
8 of the S corporation,

9 “(C) payments of principal and interest on
10 debt of the S corporation, and

11 “(D) amounts distributed to shareholders
12 to the extent such amounts do not exceed the
13 aggregate of such shareholders’ tax imposed by
14 this chapter and State and local taxes on such
15 net recognized built-in gain.

16 “(3) NONRECOGNITION PERIOD.—For purposes
17 of this subsection, the term ‘nonrecognition period’
18 means, with respect to a taxable year for which an
19 S corporation has a net recognized built-in gain, the
20 first and second succeeding taxable years.

21 “(4) EXISTING S CORPORATION.—The term ‘ex-
22 isting S corporation’ means any S corporation for
23 which an election under section 1362 is filed before
24 October 12, 2001.”

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to taxable years beginning after
3 the date of the enactment of this Act.

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