

110TH CONGRESS
2D SESSION

H. R. 6601

To amend the Internal Revenue Code of 1986 to simplify the deduction for business use of the home and to make other changes affecting small businesses.

IN THE HOUSE OF REPRESENTATIVES

JULY 24, 2008

Ms. VELÁZQUEZ 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 simplify the deduction for business use of the home and to make other changes affecting small businesses.

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 “Small Business Tax
5 Modernization Act of 2008”.

6 **SEC. 2. STANDARD DEDUCTION FOR BUSINESS USE OF**
7 **HOME.**

8 (a) IN GENERAL.—Subsection (c) of section 280A of
9 the Internal Revenue Code of 1986 (relating to disallow-

1 ance of certain expenses in connection with business use
2 of home, rental of vacation homes, etc.) is amended by
3 adding at the end the following new paragraph:

4 “(7) STANDARD HOME OFFICE DEDUCTION.—

5 “(A) IN GENERAL.—In the case of an indi-
6 vidual who is allowed a deduction for the use of
7 a home office because of a use described in
8 paragraphs (1), (2), or (4) of this subsection,
9 notwithstanding the limitations of paragraph
10 (5), if such individual elects the application of
11 this paragraph for the taxable year, such indi-
12 vidual shall be allowed a deduction equal to the
13 standard home office deduction for the taxable
14 year in lieu of the deductions otherwise allow-
15 able under this chapter for such taxable year by
16 reason of being attributed to such use.

17 “(B) STANDARD HOME OFFICE DEDUC-
18 TION.—For purposes of this paragraph, the
19 standard home office deduction is the lesser
20 of—

21 “(i) \$2,000, or

22 “(ii) the gross income derived from
23 the individual’s trade or business for which
24 such use occurs.

1 “(C) INFLATION ADJUSTMENT.—In the
2 case of any taxable year beginning in a calendar
3 year after 2008, the dollar amount in subpara-
4 graph (B)(i) shall be increased by an amount
5 equal to—

6 “(i) such dollar amount, multiplied by

7 “(ii) the cost-of-living adjustment de-
8 termined under section 1(f)(3) for the cal-
9 endar year in which the taxable year be-
10 gins, determined by substituting ‘2007’ for
11 ‘1992’ in subparagraph (B) thereof.

12 Any increase determined under the preceding
13 sentence shall be rounded to the nearest mul-
14 tiple of \$100.”.

15 (b) EFFECTIVE DATE.—The amendment made by
16 this section shall apply to taxable years beginning after
17 December 31, 2007.

18 **SEC. 3. DE MINIMIS EXCEPTION TO EXCLUSIVE USE RE-**
19 **QUIREMENT.**

20 (a) IN GENERAL.—Subsection (c) of section 280A of
21 the Internal Revenue Code of 1986 (relating to disallow-
22 ance of certain expenses in connection with business use
23 of home, rental of vacation homes, etc.) is amended by
24 redesignating paragraphs (5) and (6) as paragraphs (6)

1 and (7), respectively, and by inserting after paragraph (4)
2 the following new paragraph:

3 “(5) DE MINIMIS NONBUSINESS USE.—In ap-
4 plying paragraph (1), personal use shall not be
5 taken into account if such use is so small as to make
6 accounting for it unreasonable or administratively
7 impracticable.”.

8 (b) CONFORMING AMENDMENT.—Subparagraph (A)
9 of section 280A(d)(4) of such Code is amended by striking
10 “subsection (c)(5)” and inserting “subsection (c)(6)”.

11 (c) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to taxable years beginning after
13 December 31, 2007.

14 **SEC. 4. REMOVAL OF CELLULAR TELEPHONES AND SIMI-**
15 **LAR TELECOMMUNICATIONS EQUIPMENT**
16 **FROM LISTED PROPERTY.**

17 (a) IN GENERAL.—Subparagraph (A) of section
18 280F(d)(4) of the Internal Revenue Code of 1986 (defin-
19 ing listed property) is amended by adding “and” at the
20 end of clause (iv), by striking clause (v), and by redesign-
21 ating clause (vi) as clause (v).

22 (b) EFFECTIVE DATE.—The amendment made by
23 this section shall apply to property placed in service after
24 December 31, 2007.

1 **SEC. 5. NONRESIDENT ALIENS PERMITTED TO BE S COR-**
2 **PORATION SHAREHOLDERS.**

3 (a) IN GENERAL.—Paragraph (1) of section 1361(b)
4 of the Internal Revenue Code of 1986 (defining an S cor-
5 poration) is amended by adding “and” at the end of sub-
6 paragraph (B), by striking subparagraph (C), and by re-
7 designating subparagraph (D) as subparagraph (C).

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

11 **SEC. 6. INCREASED DEDUCTION OF BUSINESS MEALS AND**
12 **ENTERTAINMENT EXPENSES FOR QUALIFIED**
13 **SMALL BUSINESSES.**

14 (a) IN GENERAL.—Subsection (n) of section 274 of
15 the Internal Revenue Code of 1986 (relating to only 50
16 percent of meal and entertainment expenses allowed as de-
17 duction) is amended by adding at the end the following
18 new paragraph:

19 “(4) SPECIAL RULE FOR SMALL BUSINESSES.—

20 “(A) IN GENERAL.—In the case of a quali-
21 fied small business, paragraph (1) shall be ap-
22 plied—

23 “(i) by substituting ‘75 percent’ for
24 ‘50 percent’ in the case of taxable years
25 beginning in 2008, and

1 “(ii) by substituting ‘80 percent’ for
2 ‘50 percent’ in the case of taxable years
3 beginning after 2008.

4 “(B) QUALIFIED SMALL BUSINESS.—For
5 purposes of subparagraph (A), the term ‘quali-
6 fied small business’ means, with respect to any
7 taxable year—

8 “(i) any corporation or partnership
9 which meets the gross receipts test of sec-
10 tion 448(c) for the preceding taxable year,
11 and

12 “(ii) any sole proprietorship which
13 would meet such test if such proprietorship
14 were a corporation.”.

15 (b) EFFECTIVE DATE.—The amendment made by
16 this section shall apply to taxable years beginning after
17 December 31, 2007.

18 **SEC. 7. RECOVERY PERIOD FOR DEPRECIATION OF CER-**
19 **TAIN SYSTEMS INSTALLED IN NONRESIDEN-**
20 **TIAL AND RESIDENTIAL RENTAL BUILDINGS.**

21 (a) 20-YEAR RECOVERY PERIOD FOR HIGHLY EFFI-
22 CIENT HVAC&R EQUIPMENT.—Subparagraph (F) of sec-
23 tion 168(e)(3) of the Internal Revenue Code of 1986 (re-
24 lating to 20-year property) is amended to read as follows:

1 “(F) 20-YEAR PROPERTY.—The term ‘20-
2 year property’ means—

3 “(i) initial clearing and grading land
4 improvements with respect to any electric
5 utility transmission and distribution plant,
6 and

7 “(ii) any property—

8 “(I) which is part of a heating,
9 ventilation, air conditioning, or com-
10 mercial refrigeration system,

11 “(II) which exceeds by at least
12 10 percent the applicable minimum
13 performance standard for such system
14 or component under the National Ap-
15 pliance Energy Conservation Act of
16 1987, the Energy Policy Act of 2005,
17 or the American Society of Heating,
18 Refrigerating and Air-conditioning
19 Engineers Standard 90.1,

20 “(III) which is installed on or in
21 a building which is nonresidential real
22 property or residential rental prop-
23 erty,

24 “(IV) the original use of which
25 commences with the taxpayer (the

1 owner or lessor in the case of residen-
2 tial rental property), and

3 “(V) which is placed in service
4 before January 1, 2012.”.

5 (b) 25-YEAR RECOVERY PERIOD FOR CERTAIN
6 OTHER HVAC&R EQUIPMENT.—Section 168(e)(3) of
7 such Code is amended by inserting after subparagraph (F)
8 the following new subparagraph:

9 “(G) 25-YEAR PROPERTY.—The term ‘25-
10 year property’ means any property—

11 “(i) which is part of a heating, ven-
12 tilation, air conditioning, or commercial re-
13 frigeration system,

14 “(ii) which is not described in sub-
15 paragraph (F),

16 “(iii) which is installed on or in a
17 building which is nonresidential real prop-
18 erty or residential rental property,

19 “(iv) the original use of which com-
20 mences with the taxpayer (the owner or
21 lessor in the case of residential rental
22 property), and

23 “(v) which is placed in service before
24 January 1, 2012.”.

25 (c) CONFORMING AMENDMENTS.—

1 (1) The table contained in section 168(c) of
2 such Code is amended by inserting after the item re-
3 lating to 20-year property the following new item:

“25-year property 25 years”.

4 (2) The table contained in section 467(e)(3)(A)
5 of such Code is amended by inserting after the item
6 relating to residential rental property and nonresi-
7 dential real property the following new item:

“25-year property 25 years”.

8 (d) REQUIREMENT TO USE STRAIGHT LINE METH-
9 OD.—Paragraph (3) of section 168(b) of such Code (relat-
10 ing to property to which straight line method applies) is
11 amended by redesignating subparagraphs (F), (G), and
12 (H) as subparagraphs (G), (H), and (I), respectively, and
13 by inserting after subparagraph (E) the following new
14 subparagraph:

15 “(F) Property described in subsection
16 (e)(3)(F)(ii) and subsection (e)(3)(G).”.

17 (e) ALTERNATIVE SYSTEM.—The table contained in
18 section 168(g)(3)(B) of such Code is amended by striking
19 the item relating to subparagraph (F) and inserting the
20 following new items:

“(F)(i) 25
(F)(ii) 20
(G) 25”.

1 (f) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to property placed in service after
3 December 31, 2007.

○