

106TH CONGRESS
1ST SESSION

H. R. 2087

To amend the Internal Revenue Code of 1986 to provide tax relief for small businesses, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 9, 1999

Mr. TALENT (for himself, Mr. McCRERY, Mr. ENGLISH, Mrs. BONO, and Mr. DEMINT) 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 tax relief for small businesses, and for other purposes.

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 Employer Tax
5 Relief Act of 1999”.

6 **SEC. 2. DEDUCTION FOR HEALTH INSURANCE COSTS OF**
7 **SELF-EMPLOYED INDIVIDUALS INCREASED.**

8 (a) IN GENERAL.—Paragraph (1) of section 162(l)
9 of the Internal Revenue Code of 1986 (relating to special

1 rules for health insurance costs of self-employed individ-
 2 uals) is amended to read as follows:

3 “(1) ALLOWANCE OF DEDUCTION.—In the case
 4 of an individual who is an employee within the
 5 meaning of section 401(c)(1), there shall be allowed
 6 as a deduction under this section an amount equal
 7 to the amount paid during the taxable year for in-
 8 surance which constitutes medical care for the tax-
 9 payer, the taxpayer’s spouse, and dependents.”.

10 (b) CLARIFICATION OF LIMITATIONS ON OTHER COV-
 11 ERAGE.—The first sentence of section 162(l)(2)(B) of the
 12 Internal Revenue Code of 1986 is amended to read as fol-
 13 lows: “Paragraph (1) shall not apply to any taxpayer for
 14 any calendar month for which the taxpayer participates
 15 in any subsidized health plan maintained by any employer
 16 (other than an employer described in section 401(c)(4))
 17 of the taxpayer or the spouse of the taxpayer.”.

18 **SEC. 3. SMALL BUSINESSES ALLOWED INCREASED DEDUC-**
 19 **TION FOR MEAL AND ENTERTAINMENT EX-**
 20 **PENSES.**

21 Subsection (n) of section 274 of the Internal Revenue
 22 Code of 1986 (relating to only 50 percent of meal and
 23 entertainment expenses allowed as deduction) is amended
 24 by adding at the end the following new paragraph:

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

1 “(A) IN GENERAL.—In the case of any
 2 taxpayer which is a small business, paragraph
 3 (1) shall be applied by substituting ‘the applica-
 4 ble percentage (as defined in paragraph
 5 (3)(B))’ for ‘50 percent’.

6 “(B) SMALL BUSINESS.—For purposes of
 7 this paragraph, the term ‘small business’
 8 means, with respect to expenses paid or in-
 9 curred during any taxable year—

10 “(i) any C corporation which meets
 11 the requirements of section 55(e)(1) for
 12 such year, and

13 “(ii) any S corporation, partnership,
 14 or sole proprietorship which would meet
 15 such requirements if it were a C corpora-
 16 tion.”.

17 **SEC. 4. INCREASE IN EXPENSE TREATMENT FOR SMALL**
 18 **BUSINESSES.**

19 Paragraph (1) of section 179(b) of the Internal Rev-
 20 enue Code of 1986 (relating to dollar limitation) is amend-
 21 ed to read as follows:

22 “(1) DOLLAR LIMITATION.—The aggregate cost
 23 which may be taken into account under subsection
 24 (a) for any taxable year shall not exceed \$35,000.”.

1 **SEC. 5. REDUCTION OF MAXIMUM INCOME TAX RATE FOR**
 2 **SMALL BUSINESS TAXPAYERS.**

3 Section 1 of the Internal Revenue Code of 1986 (re-
 4 lating to tax imposed) is amended by adding at the end
 5 the following new subsection:

6 “(i) TAX RATE ON CERTAIN SMALL BUSINESS IN-
 7 COME.—

8 “(1) IN GENERAL.—Except as provided in para-
 9 graph (4), if a small business taxpayer has taxable
 10 income for any taxable year to which this subsection
 11 applies, then the tax imposed by this section shall
 12 not exceed the sum of—

13 “(A) a tax computed at the rates and in
 14 the same manner as if this subsection had not
 15 been enacted on the greater of—

16 “(i) taxable income reduced by quali-
 17 fied small business income, or

18 “(ii) the amount of taxable income
 19 taxed at a rate below 34 percent, plus

20 “(B) a tax of 34 percent of qualified small
 21 business income in excess of the taxable income
 22 that is subject to tax under subparagraph (A).

23 “(2) TAXABLE SMALL BUSINESS INCOME.—For
 24 purposes of this subsection—

25 “(A) QUALIFIED SMALL BUSINESS IN-
 26 COME.—The term ‘qualified small business in-

1 come’ means taxable income of a small business
2 to the extent such income does not exceed
3 \$5,000,000.

4 “(B) TAXABLE SMALL BUSINESS IN-
5 COME.—The term ‘taxable small business in-
6 come’ means, with respect to any taxable year,
7 the taxable income of the taxpayer for such
8 year attributable to the active conduct of any
9 trade or business of an eligible small business.

10 “(D) ELIGIBLE SMALL BUSINESS.—The
11 term ‘eligible small business’ means an S cor-
12 poration, partnership, limited liability company
13 or sole proprietorship, except that such term
14 does not include a personal service corporation
15 (as defined in section 469(j)(2)) unless such
16 corporation is a qualified personal service cor-
17 poration (as defined in section 448(d)(2)).

18 “(3) REGULATIONS.—The Secretary shall pre-
19 scribe such regulations as may be necessary or ap-
20 propriate to carry out the purposes of this section,
21 including regulations preventing the characterization
22 of income for purposes of compensation or personal
23 use as qualified small business income.”.

1 **SEC. 6. REPEAL OF FEDERAL UNEMPLOYMENT SURTAX.**

2 (a) IN GENERAL.—The text of section 3301 of the
3 Internal Revenue Code of 1986 is amended to read as fol-
4 lows:

5 “There is hereby imposed on every employer (as de-
6 fined in section 3306(a)) for each calendar year an excise
7 tax, with respect to having individuals in his employ, equal
8 to 6.0 percent of the total wages (as defined in section
9 3306(b)) paid by him during the calendar year with re-
10 spect to employment (as defined in section 3306(c)).”

11 (b) EFFECTIVE DATE.—The amendment made by
12 subsection (a) shall apply to calendar years beginning
13 after the date of the enactment of this Act.

14 **SEC. 7. CLARIFICATION OF CASH ACCOUNTING RULES FOR**
15 **SMALL BUSINESS.**

16 Section 446 of the Internal Revenue Code of 1986
17 (relating to general rule for methods of accounting) is
18 amended by adding at the end the following new sub-
19 section:

20 “(g) SMALL TAXPAYERS PERMITTED TO USE CASH
21 ACCOUNTING METHOD WITHOUT LIMITATION.—A tax-
22 payer shall not be required to use an accrual method of
23 accounting for any taxable year by reason of using mer-
24 chandise or inventory, if the average annual gross receipts
25 of such taxpayer (or any predecessor) for the 3-year-period
26 ending with such prior taxable year does not exceed

1 \$5,000,000. The rules of paragraphs (2) and (3) of section
2 448(c) shall apply for purposes of the preceding sentence.
3 In the case of a C corporation or a partnership which has
4 a C corporation as a partner, the first sentence of this
5 subsection shall apply only if such C corporation or part-
6 nership meets the requirements of section 448(b)(3).”

7 **SEC. 8. EFFECTIVE DATE.**

8 Except as otherwise provided in this Act, the amend-
9 ments made by this Act shall apply to taxable years begin-
10 ning after the date of the enactment of this Act.

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