

110TH CONGRESS
1ST SESSION

S. 1214

To amend the Internal Revenue Code of 1986 to modify the partial exclusion for gain from certain small business stocks.

IN THE SENATE OF THE UNITED STATES

APRIL 25, 2007

Mr. KERRY (for himself and Ms. SNOWE) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to modify the partial exclusion for gain from certain small business stocks.

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 “Invest in Small Busi-
5 ness Act of 2007”.

6 **SEC. 2. INCREASED EXCLUSION AND OTHER MODIFICA-**
7 **TIONS APPLICABLE TO QUALIFIED SMALL**
8 **BUSINESS STOCK.**

9 (a) INCREASED EXCLUSION.—

1 (1) IN GENERAL.—Paragraph (1) of section
 2 1202(a) of the Internal Revenue Code of 1986 (re-
 3 lating partial exclusion for gain from certain small
 4 business stock) is amended to read as follows:

5 “(1) IN GENERAL.—Gross income shall not in-
 6 clude 75 percent of any gain from the sale or ex-
 7 change of qualified small business stock held for
 8 more than 4 years.”.

9 (2) EMPOWERMENT ZONE BUSINESSES.—Sub-
 10 paragraph (A) of section 1202(a)(2) of such Code is
 11 amended—

12 (A) by striking “60 percent” and inserting
 13 “100 percent”, and

14 (B) by striking “50 percent” and inserting
 15 “75 percent”.

16 (3) RULE RELATING TO STOCK HELD AMONG
 17 MEMBERS OF CONTROLLED GROUP.—Subsection (c)
 18 of section 1202 of such Code is amended by adding
 19 at the end the following new paragraph:

20 “(4) STOCK HELD AMONG MEMBERS OF 25-PER-
 21 CENT CONTROLLED GROUP NOT ELIGIBLE.—

22 “(A) IN GENERAL.—Stock of a member of
 23 a 25-percent controlled group shall not be treat-
 24 ed as qualified small business stock while held
 25 by another member of such group.

1 “(B) 25-PERCENT CONTROLLED GROUP.—

2 For purposes of subparagraph (A), the term
 3 ‘25-percent controlled group’ means any con-
 4 trolled group of corporations as defined in sec-
 5 tion 1563(a)(1), except that—

6 “(i) ‘more than 25 percent’ shall be
 7 substituted for ‘at least 80 percent’ each
 8 place it appears in section 1563(a)(1), and

9 “(ii) section 1563(a)(4) shall not
 10 apply.”.

11 (4) CONFORMING AMENDMENTS.—Subsections
 12 (b)(2), (g)(2)(A), and (j)(1)(A) of section 1202 of
 13 such Code are each amended by striking “5 years”
 14 and inserting “4 years”.

15 (b) REPEAL OF MINIMUM TAX PREFERENCE.—

16 (1) IN GENERAL.—Subsection (a) of section 57
 17 of the Internal Revenue Code of 1986 (relating to
 18 items of tax preference) is amended by striking
 19 paragraph (7).

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

23 (c) REPEAL OF 28 PERCENT CAPITAL GAINS RATE
 24 ON QUALIFIED SMALL BUSINESS STOCK.—

1 (1) IN GENERAL.—Subparagraph (A) of section
 2 1(h)(4) of the Internal Revenue Code of 1986 is
 3 amended to read as follows:

4 “(A) collectibles gain, over”.

5 (2) CONFORMING AMENDMENTS.—

6 (A) Section 1(h) of such Code is amended
 7 by striking paragraph (7).

8 (B)(i) Section 1(h) of such Code is amend-
 9 ed by redesignating paragraphs (8), (9), (10),
 10 (11), (12), and (13) as paragraphs (7), (8), (9),
 11 (10), (11), and (12), respectively.

12 (ii) Sections 163(d)(4)(B), 854(b)(5),
 13 857(c)(2)(D) of such Code are each amended
 14 by striking “section 1(h)(11)(B)” and inserting
 15 “section 1(h)(10)(B)”.

16 (iii) The following sections of such Code
 17 are each amended by striking “section
 18 1(h)(11)” and inserting “section 1(h)(10)”:

19 (I) Section 301(f)(4).

20 (II) Section 306(a)(1)(D).

21 (III) Section 584(c).

22 (IV) Section 702(a)(5).

23 (V) Section 854(a).

24 (VI) Section 854(b)(2).

1 (iv) The heading of section 857(c)(2) is
 2 amended by striking “1(h)(11)” and inserting
 3 “1(h)(10)”.

4 (d) INCREASE AGGREGATE ASSET LIMITATION FOR
 5 QUALIFIED SMALL BUSINESSES.—

6 (1) IN GENERAL.—Paragraph (1) of section
 7 1202(d) of the Internal Revenue Code of 1986 (re-
 8 lating to qualified small business) is amended by
 9 striking “\$50,000,000” each place it appears and in-
 10 serting “\$100,000,000”.

11 (2) INFLATION ADJUSTMENT.—Section 1202(d)
 12 of such Code is amended by adding at the end the
 13 following new paragraph:

14 “(4) INFLATION ADJUSTMENT.—

15 “(A) IN GENERAL.—In the case of any
 16 taxable year beginning in a calendar year after
 17 2007, each of the \$100,000,000 dollar amounts
 18 in paragraph (1) shall be increased by an
 19 amount equal to—

20 “(i) such dollar amount, multiplied by

21 “(ii) the cost-of-living adjustment de-
 22 termined under section 1(f)(3) for the cal-
 23 endar year in which the taxable year be-
 24 gins, determined by substituting ‘calendar

1 year 2006’ for ‘calendar year 1992’ in sub-
 2 paragraph (B) thereof.

3 “(B) ROUNDING.—If any amount as ad-
 4 justed under subparagraph (A) is not a multiple
 5 of \$1,000, such amount shall be rounded to the
 6 next lowest multiple of \$100.”.

7 (e) EFFECTIVE DATE.—

8 (1) IN GENERAL.—The amendments made by
 9 this section apply to stock issued after December 31,
 10 2007.

11 (2) SPECIAL RULE FOR STOCK ISSUED BEFORE
 12 DECEMBER 31, 2007.—The amendments made by
 13 subsections (a), (b), and (c) shall apply to sales or
 14 exchanges—

15 (A) made after December 31, 2007,

16 (B) of stock issued before such date,

17 (C) by a taxpayer other than a corpora-
 18 tion.

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