

105<sup>TH</sup> CONGRESS  
2<sup>D</sup> SESSION

# H. R. 4685

To amend the Internal Revenue Code of 1986 to expand the exclusion for qualified small business stock, to increase the annual limit with respect to incentive stock options, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

OCTOBER 2, 1998

Ms. DUNN introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to expand the exclusion for qualified small business stock, to increase the annual limit with respect to incentive stock options, 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. INCREASED EXCLUSION AND OTHER MODI-**  
4                               **FICATIONS APPLICABLE TO QUALIFIED**  
5                               **SMALL BUSINESS STOCK.**

6               (a) INCREASED EXCLUSION.—

7                       (1) IN GENERAL.—Subsection (a) of section  
8               1202 of the Internal Revenue Code of 1986 (50-per-

1 cent exclusion for gain from certain small business  
2 stock) is amended—

3 (A) by striking “50 percent” and inserting  
4 “75 percent”, and

5 (B) by striking “50-PERCENT” in the  
6 heading and inserting “75-PERCENT”.

7 (2) CONFORMING AMENDMENTS.—

8 (A) Paragraph (8) of section 1(h) of such  
9 Code is amended to read as follows:

10 “(8) SECTION 1202 GAIN.—For purposes of this  
11 subsection, the term ‘section 1202 gain’ means an  
12 amount equal to 25 percent of the gain which would  
13 be excluded from gross income under section  
14 1202(a) without regard to the 75 percent limitation  
15 in such section.”

16 (B) The heading for section 1202 of such  
17 Code is amended by striking “**50-PERCENT**”  
18 and inserting “**75-PERCENT**”.

19 (C) The table of sections for part I of sub-  
20 chapter P of chapter 1 of such Code is amended  
21 by striking “50-percent” in the item relating to  
22 section 1202 and inserting “75-percent”.

23 (b) REDUCTION IN HOLDING PERIOD.—

1           (1) IN GENERAL.—Subsection (a) of section  
2           1202 of such Code is amended by striking “5 years”  
3           and inserting “3 years”.

4           (2) CONFORMING AMENDMENT.—Subsections  
5           (g)(2)(A) and (j)(1)(A) of section 1202 of such Code  
6           are each amended by striking “5 years” and insert-  
7           ing “3 years”.

8           (c) EXCLUSION AVAILABLE TO CORPORATIONS.—

9           (1) IN GENERAL.—Subsection (a) of section  
10          1202 of such Code is amended by striking “other  
11          than a corporation”.

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

15                 “(4) STOCK HELD AMONG MEMBERS OF CON-  
16          TROLLED GROUP NOT ELIGIBLE.—Stock of a mem-  
17          ber of a parent-subsidiary controlled group (as de-  
18          fined in subsection (d)(3)) shall not be treated as  
19          qualified small business stock while held by another  
20          member of such group.”

21          (d) REPEAL OF MINIMUM TAX PREFERENCE.—

22          (1) IN GENERAL.—Subsection (a) of section 57  
23          of such Code (relating to items of tax preference) is  
24          amended by striking paragraph (7).

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

4           (e) STOCK OF LARGER BUSINESSES ELIGIBLE FOR  
5 EXCLUSION.—

6           (1) IN GENERAL.—Paragraph (1) of section  
7           1202(d) of such Code (defining qualified small busi-  
8           ness) is amended by striking “\$50,000,000” each  
9           place it appears and inserting “\$300,000,000”.

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

13           “(4) INFLATION ADJUSTMENT OF ASSET LIM-  
14           TATION.—In the case of stock issued in any calendar  
15           year after 1999, the \$300,000,000 amount con-  
16           tained in paragraph (1) shall be increased by an  
17           amount equal to—

18           “(A) such dollar amount, multiplied by

19           “(B) the cost-of-living adjustment deter-  
20           mined under section 1(f)(3) for the calendar  
21           year in which the taxable year begins, deter-  
22           mined by substituting ‘calendar year 1998’ for  
23           ‘calendar year 1992’ in subparagraph (B)  
24           thereof.

1 If any amount as adjusted under the preceding sen-  
2 tence is not a multiple of \$10,000, such amount  
3 shall be rounded to the nearest multiple of  
4 \$10,000.”

5 (f) REPEAL OF PER-ISSUER LIMITATION.—Section  
6 1202 of such Code is amended by striking subsection (b).

7 (g) OTHER MODIFICATIONS.—

8 (1) REPEAL OF WORKING CAPITAL LIMITA-  
9 TION.—Section 1202(e)(6) of such Code (relating to  
10 working capital) is amended—

11 (A) in subparagraph (B), by striking “2  
12 years” and inserting “5 years”; and

13 (B) by striking the last sentence.

14 (2) EXCEPTION FROM REDEMPTION RULES  
15 WHERE BUSINESS PURPOSE.—Section 1202(e)(3) of  
16 such Code (relating to certain purchases by corpora-  
17 tion of its own stock) is amended by adding at the  
18 end the following:

19 “(D) WAIVER WHERE BUSINESS PUR-  
20 POSE.—A purchase of stock by the issuing cor-  
21 poration shall be disregarded for purposes of  
22 subparagraph (B) if the issuing corporation es-  
23 tablishes that there was a business purpose for  
24 such purchase and one of the principal purposes

1 of the purchase was not to avoid the limitations  
2 of this section.”

3 (h) QUALIFIED TRADE OR BUSINESS.—Section  
4 1202(e)(3) of such Code (defining qualified trade or busi-  
5 ness) is amended by inserting “and” at the end of sub-  
6 paragraph (C), by striking “, and” at the end of subpara-  
7 graph (D) and inserting a period, and by striking subpara-  
8 graph (E).

9 (i) EFFECTIVE DATES.—

10 (1) IN GENERAL.—Except as provided in para-  
11 graph (2), the amendments made by this section  
12 apply to stock issued after the date of enactment of  
13 this Act.

14 (2) SPECIAL RULE.—The amendments made by  
15 subsections (a), (c), (e), (f), and (g)(1) apply to  
16 stock issued after August 10, 1993.

17 **SEC. 2. INCREASED EXCLUSION FOR INCENTIVE STOCK OP-**  
18 **TIONS; EXCEPTION FROM ALTERNATIVE MIN-**  
19 **IMUM TAX.**

20 (a) INCREASED EXCLUSION.—Subsection (d) of sec-  
21 tion 422 of the Internal Revenue Code of 1986 (relating  
22 to \$100,000 per year limitation) is amended by striking  
23 “\$100,000” each place it appears and inserting  
24 “\$200,000”.

1       (b) EXCEPTION FROM ALTERNATIVE MINIMUM  
2 TAX.—Subsection (b) of section 56 of such Code is  
3 amended by striking paragraph (3).

4       (c) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to options exercised in calendar  
6 years beginning after the date of the enactment of this  
7 Act.

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