

107TH CONGRESS  
1ST SESSION

# S. 455

To amend the Internal Revenue Code of 1986 to increase and modify the exclusion relating to qualified small business stock and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

MARCH 5, 2001

Ms. COLLINS (for herself, Mr. CLELAND, Mr. BREAUX, Mr. ALLARD, Mr. CHAFEE, Mr. LIEBERMAN, Ms. LANDRIEU, Mr. HATCH, and Mr. HUTCHINSON) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to increase and modify the exclusion relating to qualified small business stock 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 “Encouraging Invest-  
5 ment in Small Business Act”.

1 **SEC. 2. INCREASED EXCLUSION AND OTHER MODIFICA-**  
2 **TIONS APPLICABLE TO QUALIFIED SMALL**  
3 **BUSINESS STOCK.**

4 (a) INCREASED EXCLUSION.—Section 1202(a) of the  
5 Internal Revenue Code of 1986 (relating to partial exclu-  
6 sion for gain from certain small business stock) is amend-  
7 ed by striking “50 percent” each place it appears and in-  
8 serting “75 percent”.

9 (b) REDUCTION IN HOLDING PERIOD.—

10 (1) IN GENERAL.—Section 1202(a) of the In-  
11 ternal Revenue Code of 1986 is amended by striking  
12 “5 years” and inserting “3 years”.

13 (2) CONFORMING AMENDMENTS.—Subsections  
14 (g)(2)(A) and (j)(1)(A) of section 1202 of such Code  
15 are each amended by striking “5 years” and insert-  
16 ing “3 years”.

17 (c) REPEAL OF MINIMUM TAX PREFERENCE.—

18 (1) IN GENERAL.—Section 57(a) of the Internal  
19 Revenue Code of 1986 (relating to items of tax pref-  
20 erence) is amended by striking paragraph (7).

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

24 (d) OTHER MODIFICATIONS.—

25 (1) WORKING CAPITAL LIMITATION.—

1 (A) IN GENERAL.—Section 1202(e)(6) of  
2 the Internal Revenue Code of 1986 (relating to  
3 working capital) is amended—

4 (i) in subparagraph (B), by striking  
5 “2 years” and inserting “5 years”; and

6 (ii) by striking “2 years” in the last  
7 sentence and inserting “5 years”.

8 (B) LIMITATION ON ASSETS TREATED AS  
9 USED IN ACTIVE CONDUCT OF BUSINESS.—The  
10 second sentence of section 1202(e)(6) of such  
11 Code is amended by inserting “described in  
12 subparagraph (A)” after “of the corporation”.

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

18 “(D) WAIVER WHERE BUSINESS PUR-  
19 POSE.—A purchase of stock by the issuing cor-  
20 poration shall be disregarded for purposes of  
21 subparagraph (B) if the issuing corporation es-  
22 tablishes that there was a business purpose for  
23 such purchase and one of the principal purposes  
24 of the purchase was not to avoid the limitations  
25 of this section.”

1 (e) EXCLUDED QUALIFIED TRADE OR BUSINESS.—  
 2 Section 1202(e)(3) of the Internal Revenue Code of 1986  
 3 (relating to qualified trade or business) is amended—

4 (1) by inserting “, and is anticipated to con-  
 5 tinue to be,” before “the reputation” in subpara-  
 6 graph (A), and

7 (2) by inserting “but not including the business  
 8 of raising fish or any business involving bio-  
 9 technology applications” after “trees” in subpara-  
 10 graph (C).

11 (f) INCREASE IN CAP ON ELIGIBLE GAIN FOR JOINT  
 12 RETURNS.—

13 (1) IN GENERAL.—Section 1202(b)(1)(A) of the  
 14 Internal Revenue Code of 1986 (relating to per-  
 15 issuer limitations on taxpayer’s eligible gain) is  
 16 amended by inserting “(\$20,000,000 in the case of  
 17 a joint return)” after “\$10,000,000”.

18 (2) CONFORMING AMENDMENT.—Section  
 19 1202(b)(3) of such Code is amended by striking sub-  
 20 paragraph (A) and redesignating subparagraphs (B)  
 21 and (C) as subparagraphs (A) and (B), respectively.

22 (g) DECREASE IN CAPITAL GAINS RATE.—

23 (1) IN GENERAL.—Subparagraph (A) of section  
 24 1(h)(5) of the Internal Revenue Code of 1986 (relat-

1 ing to 28-percent gain) is amended to read as fol-  
2 lows:

3 “(A) collectibles gain, over”.

4 (2) CONFORMING AMENDMENTS.—

5 (A) Section 1(h) of such Code is amended  
6 by striking paragraph (8).

7 (B) Paragraph (9) of section 1(h) of such  
8 Code is amended by striking “, gain described  
9 in paragraph (7)(A)(i), and section 1202 gain”  
10 and inserting “and gain described in paragraph  
11 (7)(A)(i)”.

12 (h) INCREASE IN ROLLOVER PERIOD FOR QUALIFIED  
13 SMALL BUSINESS STOCK.—Subsections (a)(1) and (b)(3)  
14 of section 1045 of the Internal Revenue Code of 1986 (re-  
15 lating to rollover of gain from qualified small business  
16 stock to another qualified small business stock) are each  
17 amended by striking “60-day” and inserting “180-day”.

18 (i) EFFECTIVE DATES.—

19 (1) IN GENERAL.—Except as provided in para-  
20 graph (2), the amendments made by this section  
21 shall apply to stock issued after the date of the en-  
22 actment of this Act.

1           (2) SPECIAL RULE.—The amendments made by  
2           subsections (a) and (d)(1) apply to stock issued  
3           after August 10, 1993.

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