

106TH CONGRESS
2D SESSION

S. 2246

To amend the Internal Revenue Code of 1986 to clarify that certain small businesses are permitted to use the cash method of accounting even if they use merchandise or inventory.

IN THE SENATE OF THE UNITED STATES

MARCH 9, 2000

Mr. BOND (for himself and Mr. GRASSLEY) 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 clarify that certain small businesses are permitted to use the cash method of accounting even if they use merchandise or inventory.

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 Accounting Simplification Act of 2000”.

1 **SEC. 2. CLARIFICATION OF CASH ACCOUNTING RULES FOR**
2 **SMALL BUSINESS.**

3 Section 446 of the Internal Revenue Code of 1986
4 (relating to general rule for methods of accounting) is
5 amended by adding at the end the following new sub-
6 section:

7 “(g) SMALL BUSINESS TAXPAYERS PERMITTED TO
8 USE CASH ACCOUNTING METHOD WITHOUT LIMITA-
9 TION.—Notwithstanding any other provision of law, a tax-
10 payer shall not be required to use an accrual method of
11 accounting for any taxable year, if the average annual
12 gross receipts of such taxpayer (or any predecessor) for
13 the 3-year-period ending with the preceding taxable year
14 does not exceed \$5,000,000. The rules of paragraphs (2)
15 and (3) of section 448(c) shall apply for purposes of the
16 preceding sentence. In the case of a C corporation or a
17 partnership which has a C corporation as a partner, the
18 first sentence of this subsection shall apply only if such
19 C corporation or partnership meets the requirements of
20 section 448(b)(3).”.

21 (b) CLARIFICATION OF INVENTORY RULES FOR
22 SMALL BUSINESS.—Section 471 of the Internal Revenue
23 Code of 1986 (relating to general rule for inventories) is
24 amended by redesignating subsection (c) as subsection (d)
25 and by inserting after subsection (b) the following new
26 subsection:

1 “(c) SMALL BUSINESS SERVICE PROVIDERS NOT RE-
2 QUIRED TO USE INVENTORIES.—A taxpayer shall not be
3 required to use inventories under this section for a taxable
4 year if the amounts paid for merchandise sold during the
5 preceding taxable year were less than 50 percent of the
6 gross receipts received during such preceding taxable year.
7 For purposes of this subsection, gross receipts for any tax-
8 able year shall be reduced by returns and allowances made
9 during such year.”.

10 (c) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to taxable years beginning after
12 the date of the enactment of this Act.

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