

107<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

# H. R. 2383

To amend the Internal Revenue Code of 1986 to increase and modify the exclusion relating to qualified small business stock and to provide that the exclusion relating to incentive stock options will no longer be a minimum tax preference.

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## IN THE HOUSE OF REPRESENTATIVES

JUNE 28, 2001

Ms. DUNN of Washington (for herself, Mr. MATSUI, Mr. TOM DAVIS of Virginia, Mr. DREIER, and Mr. WELLER) 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 increase and modify the exclusion relating to qualified small business stock and to provide that the exclusion relating to incentive stock options will no longer be a minimum tax preference.

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.—

1           (1) IN GENERAL.—Subsection (a) of section  
2           1202 of the Internal Revenue Code of 1986 (relating  
3           to 50-percent exclusion for gain from certain small  
4           business stock) is amended—

5                   (A) by striking “50 percent” and inserting  
6                   “100 percent”, and

7                   (B) by striking “50-PERCENT” in the  
8                   heading and inserting “100-PERCENT”.

9           (2) CONFORMING AMENDMENTS.—

10                   (A) Subparagraph (A) of section 1(h)(5) of  
11                   such Code is amended to read as follows:

12                           “(A) collectibles gain, over”.

13                   (B) Section 1(h) of such Code is amended  
14                   by striking paragraph (8).

15                   (C) Paragraph (9) of section 1(h) of such  
16                   Code is amended by striking “, gain described  
17                   in paragraph (7)(A)(i), and section 1202 gain”  
18                   and inserting “and gain described in paragraph  
19                   (7)(A)(i)”.

20                   (D) The heading for section 1202 of such  
21                   Code is amended by striking “**50-PERCENT**”  
22                   and inserting “**100-PERCENT**”.

23                   (E) The table of sections for part I of sub-  
24                   chapter P of chapter 1 of such Code is amended

1           by striking “50-percent” in the item relating to  
2           section 1202 and inserting “100-percent”.

3           (b) REDUCTION IN HOLDING PERIOD.—

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

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

11          (c) EXCLUSION AVAILABLE TO CORPORATIONS.—

12          (1) IN GENERAL.—Subsection (a) of section  
13          1202 of such Code is amended by striking “other  
14          than a corporation”.

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

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

24          (d) REPEAL OF MINIMUM TAX PREFERENCE.—

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

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

7           (e) STOCK OF LARGER BUSINESSES ELIGIBLE FOR  
8 EXCLUSION.—

9           (1) IN GENERAL.—Paragraph (1) of section  
10 1202(d) of such Code (defining qualified small busi-  
11 ness) is amended by striking “\$50,000,000” each  
12 place it appears and inserting “\$300,000,000”.

13           (2) INFLATION ADJUSTMENT.—Section 1202(d)  
14 of such Code is amended by adding at the end the  
15 following:

16           “(4) INFLATION ADJUSTMENT OF ASSET LIM-  
17 ITATION.—In the case of stock issued in any calendar  
18 year after 2002, the \$300,000,000 amount con-  
19 tained in paragraph (1) shall be increased by an  
20 amount equal to—

21                   “(A) such dollar amount, multiplied by

22                   “(B) the cost-of-living adjustment deter-  
23 mined under section 1(f)(3) for the calendar  
24 year in which the taxable year begins, deter-  
25 mined by substituting ‘calendar year 2001’ for

1           ‘calendar year 1992’ in subparagraph (B)  
2           thereof.

3           If any amount as adjusted under the preceding sen-  
4           tence is not a multiple of \$10,000, such amount  
5           shall be rounded to the nearest multiple of  
6           \$10,000.”

7           (f) REPEAL OF PER-ISSUER LIMITATION.—Section  
8           1202 of such Code is amended by striking subsection (b).

9           (g) OTHER MODIFICATIONS.—

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

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

15                   (B) by striking the last sentence.

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

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

1           such purchase and one of the principal purposes  
2           of the purchase was not to avoid the limitations  
3           of this section.”

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

10          (i) EFFECTIVE DATES.—

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

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

18 **SEC. 2. REPEAL OF MINIMUM TAX PREFERENCE FOR EX-**

19 **CLUSION FOR INCENTIVE STOCK OPTIONS.**

20          (a) IN GENERAL.—Subsection (b) of section 56 of the  
21 Internal Revenue Code of 1986 is amended by striking  
22 paragraph (3).

23          (b) EFFECTIVE DATE.—The amendment made by  
24 this section shall apply to options exercised in calendar

1 years beginning after the date of the enactment of this  
2 Act.

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