II

119TH CONGRESS
1ST SESSION

S. 695

To amend the Internal Revenue Code of 1986 to modify the exclusion for gain from qualified small business stock.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 24, 2025

Mr. CORNYN 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 exclusion for gain from qualified small business stock.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Small Business Investment Act of 2025".

SEC. 2. PHASED INCREASE IN EXCLUSION FOR GAIN FROM QUALIFIED SMALL BUSINESS STOCK.

(a) IN GENERAL.—Section 1202(a)(1) of the Internal Revenue Code of 1986 is amended—

(1) by striking "50 percent" and inserting "the applicable percentage", and

(2) by striking "held for more than 5 years" and inserting "held for at least 3 years".

(b) APPLICABLE PERCENTAGE.—Section 1202(a) of such Code is amended by adding at the end the following new paragraph:

"(5) APPLICABLE PERCENTAGE.—Except as provided in paragraphs (3) and (4), the applicable percentage under paragraph (1) shall be determined under the following table:

"Years stock held:	Applicable percentage:
3 years	50%
4 years	75%
5 years or more	100%".

(c) CONTINUED TREATMENT AS NOT ITEM OF TAX PREFERENCE.—

(1) IN GENERAL.—Section 57(a)(7) of such Code is amended by striking "An amount" and inserting "In the case of stock acquired on or before the date of the enactment of the Creating Small Business Jobs Act of 2010, an amount".

(2) CONFORMING AMENDMENT.—Section 1202(a)(4) of such Code is amended—

(A) by striking ", and" at the end of subparagraph (B) and inserting a period, and

(B) by striking subparagraph (C).

(d) OTHER CONFORMING AMENDMENTS.—

(1) Section 1202(a)(4) of such Code is amended by inserting ‘‘and before the date of the enactment of the Small Business Investment Act of 2025’’ after ‘‘Act of 2010’’.

(2) Paragraphs (3) and (4) of section 1202(a) of such Code are each amended by inserting ‘‘held for more than 5 years and’’ after ‘‘In the case of qualified small business stock’’.

(3) Section 1202(a)(3)(A) of such Code is amended to read as follows:

‘‘(A) the applicable percentage under paragraph (1) shall be 75 percent, and’’.

(4) Section 1202(a)(4)(A) of such Code is amended to read as follows:

‘‘(A) the applicable percentage under paragraph (1) shall be 100 percent, and’’.

(5) Section 1202(b)(2) of such Code is amended by striking ‘‘more than 5 years’’ and inserting ‘‘at least 3 years’’.

(6) Section 1202(g)(2)(A) of such Code is amended by striking ‘‘more than 5 years’’ and inserting ‘‘at least 3 years’’.

(7) Section 1202(j)(1)(A) of such Code is amended by striking "more than 5 years" and inserting "at least 3 years".

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to stock acquired after the date of the enactment of this Act.

(2) CONTINUED TREATMENT AS NOT ITEM OF TAX PREFERENCE.—The amendment made by subsection (c) shall take effect as if included in the enactment of section 2011 of the Creating Small Business Jobs Act of 2010.

SEC. 3. TACKING HOLDING PERIOD OF CONVERTIBLE DEBT INSTRUMENTS.

(a) IN GENERAL.—Section 1202(f) of the Internal Revenue Code of 1986 is amended—

(1) by redesignating paragraphs (1) and (2) as subparagraphs (A) and (B) and moving such subparagraphs (as so redesignated) 2 ems to the right,

(2) by striking "CONVERSION OF OTHER STOCK.—If any stock" and inserting the following: "CONVERSION.—

"(1) OTHER STOCK.—If any stock", and

(3) by adding at the end the following new paragraph:

"(2) CONVERTIBLE DEBT INSTRUMENTS.—

"(A) IN GENERAL.—If any stock in a corporation is acquired by the taxpayer, without recognition of gain, solely through the conversion of a qualified convertible debt instrument—

"(i) the stock so acquired shall be treated as qualified small business stock in the hands of the taxpayer, and

"(ii) the stock so acquired shall be treated as having been held during the period during which the qualified convertible debt instrument was held.

"(B) QUALIFIED CONVERTIBLE DEBT INSTRUMENT.—For purposes of this paragraph, the term 'qualified convertible debt instrument' means any bond or other evidence of indebtedness—

"(i) which is originally issued by the corporation to the taxpayer,

"(ii) the issuer of which—

"(I) from issuance until conversion, is a qualified small business, and

"(II) during substantially all of the taxpayer's holding period of such bond or evidence of indebtedness, the corporation meets the active business requirements of subsection (e), and

"(iii) which is convertible into stock in the corporation.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to debt instruments originally issued after the date of the enactment of this Act.

SEC. 4. GAIN EXCLUSION ALLOWED WITH RESPECT TO QUALIFIED SMALL BUSINESS STOCK IN CORPORATION.

(a) IN GENERAL.—Section 1202(c) of the Internal Revenue Code of 1986 is amended—

(1) by striking "C corporation" in paragraphs (1) and inserting "corporation", and

(2) by striking "and such corporation is a C corporation" in paragraph (2)(A).

(b) QUALIFIED SMALL BUSINESS DEFINITION.—Section 1202(d)(1) of such Code is amended by striking "which is a C corporation".

(c) CLARIFICATION OF AGGREGATION RULES APPLICABLE TO S CORPORATIONS.—Section 1202(d)(3) of such

Code is amended by adding at the end the following new subparagraph:

"(C) CLARIFICATION WITH RESPECT TO S CORPORATIONS.—Any determination of the members of a controlled group of corporations under this paragraph shall include taking into account any stock ownership in an S corporation.".

(d) TREATMENT OF PASSIVE LOSSES.—Section 469(g)(1) of such Code is amended by adding at the end the following new subparagraph:

"(D) CERTAIN DISPOSITIONS OF SMALL BUSINESS STOCK.—In the case of a disposition any gain from which is excluded from gross income under section 1202, subparagraph (A) shall not apply.".

(e) SPECIAL RULES RELATING TO S CORPORATIONS.—Section 1202(e) of such Code is amended by adding at the end the following new paragraph:

"(9) APPLIED AT S CORPORATION LEVEL.—In the case of an S corporation, the requirements of this subsection shall be applied at the corporate level.".

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to stock acquired after the date of the enactment of this Act.

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