

S 2111 IS

109th CONGRESS

1st Session

**S. 2111**

To amend the Internal Revenue Code of 1986 to provide a credit for small business employee training expenses, to increase the exclusion of capital gains from small business stocks, to extend expensing for small businesses, and for other purposes.

**IN THE SENATE OF THE UNITED STATES**

**December 15, 2005**

Mr. BAYH 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 provide a credit for small business employee training expenses, to increase the exclusion of capital gains from small business stocks, to extend expensing for small businesses, and for other purposes.

*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 Growth Initiative Act of 2005'.

**SEC. 2. CREDIT FOR EMPLOYEE TRAINING EXPENSES OF SMALL BUSINESSES.**

(a) In General- Subpart D of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 (relating to business related credits) is amended by adding at the end the following new section:

**` SEC. 45N. SMALL BUSINESS EMPLOYEE TRAINING EXPENSES.**

` (a) In General-

` (1) ALLOWANCE OF CREDIT- For purposes of section 38, in the case of an eligible small business employer, the small business employee training credit determined under this section for the taxable year is an amount equal to so much of the qualified training expenses paid or incurred by the eligible small

business employer with respect to qualified employees as exceeds the base amount.

˘ (2) BASE AMOUNT- For purposes of paragraph (1)--

˘ (A) IN GENERAL- The base amount is an amount equal to the average amount of qualified training expenses paid or incurred by the eligible small business employer with respect to all qualified employees for the 3 preceding taxable years.

˘ (B) SPECIAL RULE FOR NEW BUSINESSES-

˘ (i) BUSINESSES WITH AT LEAST 1 TAXABLE YEAR- In the case of an eligible small business employer which has at least 1 full preceding taxable year but fewer than 3 preceding taxable years, the base amount shall be the amount of qualified training expenses paid or incurred by such employer with respect to all qualified employees during the preceding taxable year.

˘ (ii) START-UP YEAR- In the case of an eligible small business employer which does not have any full preceding taxable years, the base amount shall be zero.

˘ (b) Limitations-

˘ (1) PER EMPLOYEE LIMITATION- The amount of the credit allowed under subsection (a) for any taxable year with respect to any qualified employee shall not exceed \$1,000 (\$500 in the case of an eligible small business to which subsection (a)(2)(B)(ii) applies).

˘ (2) NUMBER OF EMPLOYEES- Not more than 5 qualified employees may be taken into account under subsection (a) for any taxable year.

˘ (c) Eligible Small Business Employer-

˘ (1) IN GENERAL- The term 'eligible small business employer' means, with respect to any calendar year, an employer who employed an average of at least 2 but not more than 100 employees on business days during the preceding taxable year.

˘ (2) EXCEPTION- Such term shall not include any employer who is a physician or whose principal business is providing legal, accounting, engineering, architectural, or similar services.

˘ (d) Qualified Training Expenses- For purposes of this section, the term 'qualified training expenses' means expenses paid or incurred for the training of a qualified employee to a person who is an eligible provider of training services within the meaning of section 122 of the Workforce Investment Act of 1998.

` (e) Qualified Employee- For purposes of this section, the term `qualified employee' means an individual who has been employed by the eligible small business employer on a full-time basis for at least 6 months and who is not any of the following:

` (1) A highly compensated employee (within the meaning of section 414(q)).

` (2) A physician or a veterinarian.

` (3) An individual participating in an apprenticeship or a specialty trade skills development program associated with a specialty trade contractor as specified in subsection 238 of the North American Industry Classification System (as in effect on the date of the enactment of this section).'

(b) Credit Made Part of General Business Credit- Section 38(b) of the Internal Revenue Code of 1986 is amended by striking `and' at the end of paragraph (25), by striking the period at the end of paragraph (26) and inserting `, plus', and by adding at the end the following new paragraph:

` (27) the small business employee training credit determined under section 45N(a).'

(c) Clerical Amendment- The table of sections for subpart D of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new item:

` Sec. 45N. Small business employee training credit.'

(d) Effective Date- The amendments made by this section shall apply to expenditures incurred after December 31, 2005.

### **SEC. 3. INCREASED EXCLUSION AND OTHER MODIFICATIONS APPLICABLE TO QUALIFIED SMALL BUSINESS STOCK.**

(a) Increased Exclusion-

(1) IN GENERAL- Subsection (a) of section 1202 of the Internal Revenue Code of 1986 (relating to 50-percent exclusion for gain from certain small business stock) is amended to read as follows:

` (a) Exclusion- Gross income shall not include any gain from the sale or exchange of qualified small business stock held for more than 3 years.'

(2) CONFORMING AMENDMENTS-

(A) Subparagraph (A) of section 1(h)(4) of such Code is amended to read as follows:

` (A) collectibles gain, over'.

(B) Section 1(h) of such Code is amended by striking paragraph (7).

(C)(i) Section 1(h) of such Code is amended by redesignating paragraphs (8), (9), (10), (11), (12), and (13) as paragraphs (7), (8), (9), (10), (11), and (12), respectively.

(ii) Sections 163(d)(4)(B), 854(b)(5), 857(c)(2)(D) of such Code are each amended by striking `section 1(h)(11)(B)' and inserting `section 1(h)(10)(B)'.

(iii) The following sections in 301(f)(4) of such Code are each amended by striking `section 1(h)(11)' and inserting `section 1(h)(10)':

(I) Section 301(f)(4).

(II) Section 306(a)(1)(D).

(III) Section 584(c).

(IV) Section 702(a)(5).

(V) Section 854(a).

(VI) Section 854(b)(2).

(iv) The heading of section 857(c)(2) is amended by striking `1(h)(11)' and inserting `1(h)(10)'.

(D) Subsection (c) of section 1202 of such Code is amended by adding at the end the following new paragraph:

`(4) STOCK HELD AMONG MEMBERS OF CONTROLLED GROUP NOT ELIGIBLE- Stock of a member of a parent-subsidiary controlled group (as defined in subsection (d)(3)) shall not be treated as qualified small business stock while held by another member of such group.'.

(E) Subsections (g)(2)(A) and (j)(1)(A) of section 1202 of such Code are each amended by striking `5 years' and inserting `3 years'.

(F) The heading for section 1202 of such Code is amended by striking `partial'.

(G) The table of sections for part I of subchapter P of chapter 1 of such Code is amended by striking `Partial exclusion' in the item relating to section 1202 and inserting `Exclusion'.

(b) Repeal of Minimum Tax Preference-

(1) IN GENERAL- Subsection (a) of section 57 of the Internal Revenue Code of

1986 (relating to items of tax preference) is amended by striking paragraph (7).

(2) TECHNICAL AMENDMENT- Subclause (II) of section 53(d)(1)(B)(ii) of such Code is amended by striking ` , (5), and (7)' and inserting ` and (5)'.

(c) Repeal of Per-Issuer Limitation- Section 1202(b) of the Internal Revenue Code of 1986 (relating to per-issuer limitations on taxpayer's eligible gain) is repealed.

(d) Other Modifications-

(1) REPEAL OF WORKING CAPITAL LIMITATION- Section 1202(e)(6) of the Internal Revenue Code of 1986 (relating to working capital) is amended--

(A) in subparagraph (B), by striking ` 2 years' and inserting ` 5 years'; and

(B) by striking the last sentence.

(2) EXCEPTION FROM REDEMPTION RULES WHERE BUSINESS PURPOSE- Section 1202(c)(3) of such Code (relating to certain purchases by corporation of its own stock) is amended by adding at the end the following new subparagraph:

` (D) WAIVER WHERE BUSINESS PURPOSE- A purchase of stock by the issuing corporation shall be disregarded for purposes of subparagraph (B) if the issuing corporation establishes that there was a business purpose for such purchase and one of the principal purposes of the purchase was not to avoid the limitations of this section.'.

(e) Qualified Trade or Business- Section 1202(e)(3) of the Internal Revenue Code of 1986 (defining qualified trade or business) is amended by inserting ` and' at the end of subparagraph (C), by striking ` , and' at the end of subparagraph (D) and inserting a period, and by striking subparagraph (E).

(f) Effective Dates- The amendments made by this section apply to stock issued after December 31, 2005.

#### **SEC. 4. EXTENSION OF INCREASED EXPENSING FOR SMALL BUSINESS.**

Subsections (b), (c), and (d) of section 179 are each amended by striking ` 2008' each place it appears and inserting ` 2011'.

#### **SEC. 5. SBIR AND STTR PROGRAM EXPENDITURES.**

(a) SBIR Program Expenditures- Section 9(f)(1) of the Small Business Act (15 U.S.C. 638(f)(1)) is amended by striking subparagraphs (A) through (C) and inserting the following:

- ˘ (A) not less than 2.5 percent of such budget in fiscal year 2006;
- ˘ (B) not less than 3.0 percent of such budget in fiscal year 2007;
- ˘ (C) not less than 3.5 percent of such budget in fiscal year 2008;
- ˘ (D) not less than 4.0 percent of such budget in fiscal year 2009;
- ˘ (E) not less than 4.5 percent of such budget in fiscal year 2010; and
- ˘ (F) not less than 5.0 percent of such budget in fiscal year 2011 and each fiscal year thereafter, '.

(b) STTR Program Expenditures- Section 9(n)(1)(B) of the Small Business Act (15 U.S.C. 638(n)(1)(B)) is amended by striking clauses (i) and (ii) and inserting the following:

- ˘ (i) not less than 0.3 percent in fiscal year 2006;
- ˘ (ii) not less than 0.36 percent in fiscal year 2007;
- ˘ (iii) not less than 0.42 percent in fiscal year 2008;
- ˘ (iv) not less than 0.48 percent in fiscal year 2009;
- ˘ (v) not less than 0.54 percent in fiscal year 2010;
- ˘ (vi) not less than 0.6 percent in fiscal year 2011 and each fiscal year thereafter.'

## **SEC. 6. EXPANSION OF CREDIT FOR SMALL EMPLOYER PENSION PLAN STARTUP COSTS.**

(a) In General- Paragraph (1) of section 45E(b) of the Internal Revenue Code of 1986 is amended by striking ' \$500' and inserting ' \$1,000'.

(b) Effective Date- The amendment made by this section shall apply to taxable years beginning after December 31, 2005.

*END*