I

115TH CONGRESS
1ST SESSION

H. R. 1425

To amend the Internal Revenue Code of 1986 to provide a lower rate of tax on a portion of pass-through business income, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 8, 2017

Mr. HULTGREN (for himself and Mr. SMITH of Missouri) 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 provide a lower rate of tax on a portion of pass-through business income, 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 "Bring Small Businesses Back Tax Reform Act".

SEC. 2. SPECIAL INDIVIDUAL RATES FOR QUALIFIED SMALL BUSINESS INCOME.

(a) IN GENERAL.—Section 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following:

"(j) Maximum Rate on Qualified Small Business Income.—

"(1) In general.—If a taxpayer has qualified business income for any taxable year, the tax imposed by this section for such taxable year shall not exceed the sum of—

"(A) a tax computed at the rates and in the same manner as if this subsection had not been enacted on taxable income reduced by qualified business income,

"(B) 12 percent of so much of the qualified business income of the taxpayer as does not exceed $150,000, plus

"(C) 25 percent of so much of the qualified business income of the taxpayer as exceeds the amount on which tax is determined under subparagraph (B).

"(2) Qualified business income.—

"(A) In general.—The term 'qualified business income' means so much of the following of the taxpayer as does not exceed $1,000,000:

"(i) Gross earnings derived by an individual from any active trade or business carried on by such individual, less the deductions allowed by the subtitle which are attributable to such trade or business.

"(ii) The taxpayer's distributive or pro rata share qualified pass-through income.

Such term shall not include any amounts, or any distributive or pro rata share, attributable to capital gains, interest, dividends, and royalties.

"(B) QUALIFIED PASS-THROUGH INCOME.—The term 'qualified pass-through income' means, in the case of a partnership or S corporation, so much of the income of the partnership computed under section 703, or income of the S corporation computed under section 1363, as does not exceed $1,000,000 and is designated as such (at such time and in such form and manner as the Secretary shall prescribe) and allocated by the partnership or S corporation. Any income so designated shall be allocated amongst partners or shareholders in the same proportion as distributive or pro rata shares of income or loss are allocated. Such term shall not include any capital gains, interest, dividends, or royalties.

"(3) SPECIAL RULES.—

"(A) MATERIAL PARTICIPATION.—Paragraph (1) shall not apply with respect to any income attributable to a trade or business in which the taxpayer does not materially participate.

"(B) COORDINATION WITH CAPITAL GAINS.—This subsection shall be applied before the application of subsection (h).".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2017.

SEC. 3. REPEAL OF LIMITATION ON ELECTION TO EXPENSE CERTAIN DEPRECIABLE ASSET IN CASE OF NON-C CORP TAXPAYERS.

(a) IN GENERAL.—Paragraphs (1) and (2) of section 179(b) of the Internal Revenue Code of 1986 are each amended by striking "The" and inserting "In the case of a corporation (or any partnership with a corporation as a partner), the".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2017.

SEC. 4. EXPANDED AVAILABILITY OF CASH ACCOUNTING RULES AND EXCEPTION TO INVENTORY RULES FOR CERTAIN SMALL BUSINESSES.

(a) CASH ACCOUNTING PERMITTED.—

(1) IN GENERAL.—Section 446 of the Internal Revenue Code of 1986 is amended by adding at the end the following new subsection:

"(g) CERTAIN SMALL BUSINESS TAXPAYERS PERMITTED TO USE CASH ACCOUNTING METHOD WITHOUT LIMITATION.—

"(1) IN GENERAL.—With respect to an eligible taxpayer who uses the cash receipts and disbursements method for any taxable year, such method shall be deemed to clearly reflect income and the taxpayer shall not be required to use an accrual method.

"(2) ELIGIBLE TAXPAYER.—For purposes of this subsection, a taxpayer is an eligible taxpayer with respect to any taxable year if—

"(A) for all prior taxable years beginning after December 31, 2016, the taxpayer (or any predecessor) met the gross receipts test of section 448(c), and

"(B) the taxpayer is not subject to section 447 or 448.".

(2) EXPANSION OF GROSS RECEIPTS TEST.—

(A) IN GENERAL.—Paragraph (3) of section 448(b) of such Code is amended by striking "$5,000,000" in the text and in the heading and inserting "$25,000,000".

(B) CONFORMING AMENDMENTS.—Section 448(c) of such Code is amended by striking "$5,000,000" each place it appears in the text and in the heading of paragraph (1) and inserting "$25,000,000".

(3) FARMING.—

(A) IN GENERAL.—Section 447(d)(1) of such Code is amended by striking "$1,000,000" and inserting "$25,000,000".

(B) CONFORMING AMENDMENT.—Section 447(d)(2) of such Code is amended—

(i) by striking "; and" and all that follows through to the end and inserting a period, and

(ii) by striking "shall be applied—" and all that follows through "(i) by substituting" and inserting the following: "shall be applied by substituting".

(b) INVENTORY RULES.—

(1) IN GENERAL.—Section 471 of the Internal Revenue Code of 1986 is amended by redesignating

subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) SMALL BUSINESS TAXPAYERS NOT REQUIRED TO USE INVENTORIES.—

"(1) IN GENERAL.—An eligible taxpayer (as defined in section 446(g)(2)) shall not be required to use inventories under this section for a taxable year.

"(2) TREATMENT OF TAXPAYERS NOT USING INVENTORIES.—If an eligible taxpayer (as so defined) does not use inventories with respect to any property for a taxable year, any cost which (but for paragraph (1)) would have been included by the taxpayer in inventory costs shall be treated as an expense which is deductible for the taxable year in which the property is purchased.".

(2) CONFORMING AMENDMENT.—Section 263A(c) of such Code is amended by adding at the end the following new paragraph:

"(7) EXCLUSION FROM INVENTORY RULES.—This section shall not apply to property with respect to which a taxpayer does not use inventories pursuant to section 471(c).".

(c) EFFECTIVE DATE AND SPECIAL RULES.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 2017.

(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer changing the taxpayer's method of accounting for any taxable year under the amendments made by this section—

(A) such change shall be treated as initiated by the taxpayer; and

(B) such change shall be treated as made with the consent of the Secretary of the Treasury.