115TH CONGRESS
2D Session

H. R. 6756

To amend the Internal Revenue Code of 1986 to promote new business innovation, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. BUCHANAN (for himself, Mr. BRADY of Texas, Mr. SAM JOHNSON of Texas, Mr. NUNES, Mr. REICHERT, Mr. ROSKAM, Mr. SMITH of Nebraska, Ms. JENKINS of Kansas, Mr. PAULSEN, Mr. MARCHANT, Mrs. BLACK, Mr. REED, Mr. RENACCI, Mrs. NOEM, Mr. HOLDING, Mr. SMITH of Missouri, Mr. RICE of South Carolina, Mr. SCHWEIKERT, Mrs. WALORSKI, Mr. CURBelo of Florida, Mr. BISHOP of Michigan, Mr. LAHOOD, and Mr. WENSTRUP) introduced the following bill; which was referred to the Committee on

A BILL

To amend the Internal Revenue Code of 1986 to promote new business innovation, and for other purposes.

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 “American Innovation

5 Act of 2018”.

(Original Signature of Member)
SEC. 2. SIMPLIFICATION AND EXPANSION OF DEDUCTION FOR START-UP AND ORGANIZATIONAL EXPENDITURES.

(a) IN GENERAL.—Section 195 of the Internal Revenue Code of 1986 is amended by redesignating subsections (c) and (d) as subsections (d) and (e), respectively, and by striking all that precedes subsection (d) (as so redesignated) and inserting the following:

"SEC. 195. START-UP AND ORGANIZATIONAL EXPENDITURES.

"(a) CAPITALIZATION OF EXPENDITURES.—Except as otherwise provided in this section, no deduction shall be allowed for start-up or organizational expenditures.

"(b) ELECTION TO DEDUCT.—

"(1) IN GENERAL.—If a taxpayer elects the application of this subsection with respect to any active trade or business—

"(A) the taxpayer shall be allowed a deduction for the taxable year in which such active trade or business begins in an amount equal to the lesser of—

"(i) the aggregate amount of start-up and organizational expenditures paid or incurred in connection with such active trade or business, or..."
“(ii) $20,000, reduced (but not below zero) by the amount by which such aggregate amount exceeds $120,000, and

“(B) the remainder of such start-up and organizational expenditures shall be charged to capital account and allowed as an amortization deduction determined by amortizing such expenditures ratably over the 180-month period beginning with the month in which the active trade or business begins.

“(2) APPLICATION TO ORGANIZATIONAL EXPENDITURES.—In the case of organizational expenditures with respect to any corporation or partnership, the active trade or business referred to in paragraph (1) means the first active trade or business carried on by such corporation or partnership.

“(3) INFLATION ADJUSTMENT.—In the case of any taxable year beginning after December 31, 2019, the $20,000 and $120,000 amounts in paragraph (1)(A)(ii) shall each be increased by an amount equal to—

“(A) such dollar amount, multiplied by

“(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, deter-
mined by substituting ‘calendar year 2018’ for ‘calendar year 2016’ in subparagraph (A)(ii) thereof.

If any amount as increased under the preceding sentence is not a multiple of $1,000, such amount shall be rounded to the nearest multiple of $1,000.

“(e) Allowance of Deduction Upon Liquidation or Disposition.—

“(1) Liquidation of partnership or corporation.—If any partnership or corporation is completely liquidated by the taxpayer, any start-up or organizational expenditures paid or incurred in connection with such partnership or corporation which were not allowed as a deduction by reason of this section may be deducted to the extent allowable under section 165.

“(2) Disposition of trade or business.—If any trade or business is completely disposed of or discontinued by the taxpayer, any start-up expenditures paid or incurred in connection with such trade or business which were not allowed as a deduction by reason of this section (and not taken into account in connection with a liquidation to which paragraph (1) applies) may be deducted to the extent allowable under section 165. For purposes of this paragraph,
in the case of any deduction allowed under sub-
section (b)(1) with respect to both start-up and or-
organizational expenditures, the amount treated as so
allowed with respect to start-up expenditures shall
bear the same ratio to such deduction as the start-
up expenditures taken into account in determining
such deduction bears to the aggregate of the start-
up and organizational expenditures so taken into ac-
count.”.

(b) ORGANIZATIONAL EXPENDITURES.—Section
195(d) of such Code, as redesignated by subsection (a),
is amended by adding at the end the following new para-
graph:

“(3) ORGANIZATIONAL EXPENDITURES.—The
term ‘organizational expenditures’ means any ex-
penditure which—

“(A) is incident to the creation of a cor-
poration or a partnership,

“(B) is chargeable to capital account, and

“(C) is of a character which, if expended
incident to the creation of a corporation or a
partnership having an ascertainable life, would
be amortizable over such life.

“(4) APPLICATION TO CERTAIN DISREGARDED
ENTITIES.—In the case of any entity with a single
owner that is disregarded as an entity separate from
its owner, this section shall be applied in the same
manner as if such entity were a corporation.”.

(c) Election.—Section 195(e)(2) of such Code, as
redesignated by subsection (a), is amended to read as fol-

“(2) Partnerships and S Corporations.—In
the case of any partnership or S corporation, the
election under subsection (b) shall be made (and this
section shall be applied) at the entity level.”.

(d) Conforming Amendments.—

(1)(A) Part VIII of subchapter B of chapter 1
is amended by striking section 248 of such Code
(and by striking the item relating to such section in
the table of sections of such part).

(B) Section 170(b)(2)(D)(ii) of such Code is
amended by striking “(except section 248)”.

(C) Section 312(n)(3) of such Code is amended
by striking “Sections 173 and 248” and inserting
“Sections 173 and 195”.

(D) Section 535(b)(3) of such Code is amended
by striking “(except section 248)”.

(E) Section 545(b)(3) of such Code is amended
by striking “(except section 248)”.
(F) Section 545(b)(4) of such Code is amended by striking “(except section 248)”.

(G) Section 834(c)(7) of such Code is amended by striking “(except section 248)”.

(H) Section 852(b)(2)(C) of such Code is amended by striking “(except section 248)”.

(I) Section 857(b)(2)(A) of such Code is amended by striking “(except section 248)”.

(J) Section 1363(b) of such Code is amended by adding “and” at the end of paragraph (2), by striking paragraph (3), and by redesignating paragraph (4) as paragraph (3).

(K) Section 1375(b)(1)(B)(i) of such Code is amended by striking “(other than the deduction allowed by section 248, relating to organization expenditures)”.

(2)(A) Section 709 of such Code is amended to read as follows:

“SEC. 709. TREATMENT OF SYNDICATION FEES.

“No deduction shall be allowed under this chapter to a partnership or to any partner of the partnership for any amounts paid or incurred to promote the sale of (or to sell) an interest in the partnership.”.
(B) The item relating to section 709 in the table of sections for part I of subchapter K of chapter 1 of such Code is amended to read as follows:

“Sec. 709. Treatment of syndication fees.”.

(3) Section 1202(e)(2)(A) of such Code is amended by striking “section 195(c)(1)(A)” and inserting “section 195(d)(1)(A)”.

(4) The item relating to section 195 in the table of contents of part VI of subchapter B of chapter 1 of such Code is amended to read as follows:

“Sec. 195. Start-up and organizational expenditures.”.

(e) Effective Date.—The amendments made by this section shall apply to expenditures paid or incurred in connection with active trades or businesses which begin in taxable years beginning after December 31, 2018.

SEC. 3. PRESERVATION OF START-UP NET OPERATING LOSSES AND TAX CREDITS AFTER OWNER-SHIP CHANGE.

(a) Application to Net Operating Losses.—

Section 382(d) of the Internal Revenue Code of 1986 is amended by adding at the end the following new paragraph:

“(4) Exception for start-up losses.—

“(A) In general.—In the case of any net operating loss carryforward described in paragraph (1)(A) which arose in a start-up period
taxable year, the amount of such net operating
loss carryforward otherwise taken into account
under such paragraph shall be reduced by the
net start-up loss determined with respect to the
trade or business referred to in subparagraph
(B)(i) for such start-up period taxable year.

“(B) START-UP PERIOD TAXABLE YEAR.—
The term ‘start-up period taxable year’ means
any taxable year of the old loss corporation
which—

“(i) begins before the close of the 3-
year period beginning on the date on which
any trade or business of such corporation
begins as an active trade or business (as
determined under section 195(d)(2) with-
out regard to subparagraph (B) thereof),
and

“(ii) ends after September 10, 2018.

“(C) NET START-UP LOSS.—

“(i) IN GENERAL.—The term ‘net
start-up loss’ means, with respect to any
trade or business referred to in subpara-
graph (B)(i) for any start-up period tax-
able year, the amount which bears the
same ratio (but not greater than 1) to the
net operating loss carryforward which arose in such start-up period taxable year as—

“(I) the net operating loss (if any) which would have been determined for such start-up period taxable year if only items of income, gain, deduction, and loss properly allocable to such trade or business were taken into account, bears to

“(II) the amount of the net operating loss determined for such start-up period taxable year.

“(ii) Special rule for last taxable year in start-up period.—In the case of any start-up period taxable year which ends after the close of the 3-year period described in subparagraph (B)(i) with respect to any trade or business, the net start-up loss with respect to such trade or business for such start-up period taxable year shall be the same proportion of such loss (determined without regard to this clause) as the proportion of such start-up
period taxable year which is on or before
the last day of such period.

“(D) Application to net operating
loss arising in year of ownership
change.—Subparagraph (A) shall apply to any
net operating loss described in paragraph
(1)(B) in the same manner as such subpara-
graph applies to net operating loss
carryforwards described in paragraph (1)(A),
but by only taking into account the amount of
such net operating loss (and the amount of the
net start-up loss) which is allocable under para-
graph (1)(B) to the period described in such
paragraph. Proper adjustment in the allocation
of the net start-up loss under the preceding
sentence shall be made in the case of a taxable
year to which subparagraph (C)(ii) applies.

“(E) Application to taxable years
which are start-up period taxable years
with respect to more than 1 trade or
business.—In the case of any net operating
loss carryforward which arose in a taxable year
which is a start-up period taxable year with re-
spect to more than 1 trade or business—
“(i) this paragraph shall be applied separately with respect to each such trade or business, and

“(ii) the aggregate reductions under subparagraph (A) shall not exceed such net operating loss carryforward.

“(F) CONTINUITY OF BUSINESS REQUIREMENT.—If the new loss corporation does not continue the trade or business referred to in subparagraph (B)(i) at all times during the 2-year period beginning on the change date, this paragraph shall not apply with respect to such trade or business.

“(G) CERTAIN TITLE 11 OR SIMILAR CASES.—

“(i) MULTIPLE OWNERSHIP CHANGES.—In the case of a 2nd ownership change to which subsection (l)(5)(D) applies, this paragraph shall not apply for purposes of determining the pre-change loss with respect to such 2nd ownership change.

“(ii) CERTAIN INSOLVENCY TRANSACTIONS.—If subsection (l)(6) applies for purposes of determining the value of the
old loss corporation under subsection (e),
this paragraph shall not apply.

“(H) NOT APPLICABLE TO DISALLOWED
INTEREST.—This paragraph shall not apply for
purposes of applying the rules of paragraph (1)
to the carryover of disallowed interest under
paragraph (3).

“(I) TRANSITION RULE.—This paragraph
shall not apply with respect to any trade or
business if the date on which such trade or
business begins as an active trade or business
(as determined under section 195(d)(2) without
regard to subparagraph (B) thereof) is on or
before September 10, 2018.”.

(b) APPLICATION TO EXCESS CREDITS.—Section 383
of such Code is amended by redesignating subsection (e)
as subsection (f) and by inserting after subsection (d) the
following new subsection:

“(e) EXCEPTION FOR START-UP EXCESS CREDITS.—

“(1) IN GENERAL.—In the case of any unused
general business credit of the corporation under sec-
tion 39 which arose in a start-up period taxable
year, the amount of such unused general business
credit otherwise taken into account under subsection
(a)(2)(A) shall be reduced by the start-up excess
credit determined with respect to any trade or business referred to in section 382(d)(4)(B)(i) for such start-up period taxable year.

“(2) START-UP PERIOD TAXABLE YEAR.—For purposes of this subsection, the term ‘start-up period taxable year’ has the meaning given such term in section 382(d)(4)(B).

“(3) START-UP EXCESS CREDIT.—For purposes of this subsection, the term ‘start-up excess credit’ means, with respect to any trade or business referred to in section 382(d)(4)(B)(i) for any start-up period taxable year, the amount which bears the same ratio to the unused general business credit which arose in such start-up period taxable year as—

“(A) the amount of the general business credit which would have been determined for such start-up period taxable year if only credits properly allocable to such trade or business were taken into account, bears to

“(B) the amount of the general business credit determined for such start-up period taxable year.

“(4) APPLICATION OF CERTAIN RULES.—Rules similar to the rules of subparagraphs (C)(ii), (D),
(E), and (F) of section 382(d)(4) shall apply for purposes of this subsection.

“(5) TRANSITION RULE.—This subsection shall not apply with respect to any trade or business if the date on which such trade or business begins as an active trade or business (as determined under section 195(d)(2) without regard to subparagraph (B) thereof) is on or before September 10, 2018.”.

(e) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years ending after September 10, 2018.