

109<sup>TH</sup> CONGRESS  
2<sup>D</sup> SESSION

# H. R. 6004

To amend the Internal Revenue Code of 1986 to allow certain small businesses to defer payment of tax.

---

IN THE HOUSE OF REPRESENTATIVES

JULY 28, 2006

Mr. KENNEDY of Rhode Island introduced the following bill; which was referred to the Committee on Ways and Means

---

## A BILL

To amend the Internal Revenue Code of 1986 to allow certain small businesses to defer payment of tax.

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 “Generating Reinvest-  
5 ment Opportunities with America’s Small Businesses Act  
6 of 2006” or the “GROW America’s Small Businesses Act  
7 of 2006”.

1 **SEC. 2. DEFERRED PAYMENT OF TAX BY CERTAIN SMALL**  
2 **BUSINESSES.**

3 (a) IN GENERAL.—Subchapter B of chapter 62 of the  
4 Internal Revenue Code of 1986 (relating to extensions of  
5 time for payment of tax) is amended by adding at the end  
6 the following new section:

7 **“SEC. 6168. EXTENSION OF TIME FOR PAYMENT OF TAX FOR**  
8 **CERTAIN SMALL BUSINESSES.**

9 “(a) IN GENERAL.—An eligible small business may  
10 elect to pay the tax imposed by chapter 1 in 4 equal in-  
11 stallments.

12 “(b) LIMITATION.—The maximum amount of tax  
13 which may be paid in installments under this section for  
14 any taxable year shall not exceed whichever of the fol-  
15 lowing is the least:

16 “(1) The tax imposed by chapter 1 for the tax-  
17 able year.

18 “(2) The amount contributed by the taxpayer  
19 into a GROW Account during such year.

20 “(3) The excess of \$275,000 over the aggregate  
21 amount of tax for which an election under this sec-  
22 tion was made by the taxpayer (or any predecessor)  
23 for all prior taxable years.

24 “(c) ELIGIBLE SMALL BUSINESS.—For purposes of  
25 this section—

1           “(1) IN GENERAL.—The term ‘eligible small  
2 business’ means, with respect to any taxable year,  
3 any person if—

4           “(A) such person meets the active business  
5 requirements of section 1202(e) throughout  
6 such taxable year,

7           “(B) the taxpayer has gross receipts of  
8 \$12,000,000 or less for the taxable year,

9           “(C) the gross receipts of the taxpayer for  
10 such taxable year are at least 10 percent great-  
11 er than the average annual gross receipts of the  
12 taxpayer (or any predecessor) for the 2 prior  
13 taxable years, and

14           “(D) the taxpayer uses an accrual method  
15 of accounting.

16           “(2) CERTAIN RULES TO APPLY.—Rules similar  
17 to the rules of paragraphs (2) and (3) of section  
18 448(c) shall apply for purposes of this subsection.

19           “(d) DATE FOR PAYMENT OF INSTALLMENTS; TIME  
20 FOR PAYMENT OF INTEREST.—

21           “(1) DATE FOR PAYMENT OF INSTALLMENTS.—

22           “(A) IN GENERAL.—If an election is made  
23 under this section for any taxable year, the first  
24 installment shall be paid on or before the due  
25 date for such installment and each succeeding

1 installment shall be paid on or before the date  
2 which is 1 year after the date prescribed by this  
3 paragraph for payment of the preceding install-  
4 ment.

5 “(B) DUE DATE FOR FIRST INSTALL-  
6 MENT.—The due date for the first installment  
7 for a taxable year shall be whichever of the fol-  
8 lowing is the earliest:

9 “(i) The date selected by the tax-  
10 payer.

11 “(ii) The date which is 2 years after  
12 the date prescribed by section 6151(a) for  
13 payment of the tax for such taxable year.

14 “(C) ADDITIONAL DEFERRAL WHERE EM-  
15 PLOYMENT INCREASES.—

16 “(i) IN GENERAL.—Subparagraph  
17 (B)(ii) shall be applied by substituting ‘3  
18 years’ for ‘2 years’ in the case of an eligi-  
19 ble small business which meets the employ-  
20 ment increase requirement of clause (ii) for  
21 the second taxable year following the tax-  
22 able year for which the election is made.

23 “(ii) EMPLOYMENT INCREASE RE-  
24 QUIREMENT.—The employment increase  
25 requirement of this clause is met for such

1 second taxable year if the average daily  
2 number of full-time employees of such  
3 business for the last calendar quarter end-  
4 ing in such taxable year is at least 10 per-  
5 cent greater than such average number for  
6 the last calendar quarter ending before the  
7 date that the GROW Account of such busi-  
8 ness is established. For purposes of this  
9 clause, an employee shall be considered  
10 full-time if such employee is employed at  
11 least 35 hours per week

12 “(iii) SALARY MAINTENANCE OF  
13 CALLED-UP RESERVIST TREATED AS EM-  
14 PLOYMENT INCREASE.—For purposes of  
15 clause (ii), an eligible small business shall  
16 be treated as having an additional full-time  
17 employee for any period for each employee  
18 who is a Ready Reserve/National Guard  
19 employee of such business serving on quali-  
20 fied active duty for such period if the com-  
21 pensation paid or incurred by such busi-  
22 ness to such employee for such period is  
23 not less than the active duty wage differen-  
24 tial of such employee for such period. For

1           the definition of terms used in this clause,  
2           see subsection (g).

3           “(2) TIME FOR PAYMENT OF INTEREST.—If the  
4           time for payment of any amount of tax has been ex-  
5           tended under this section—

6                   “(A) INTEREST FOR PERIOD BEFORE DUE  
7                   DATE OF FIRST INSTALLMENT.—Interest pay-  
8                   able under section 6601 on any unpaid portion  
9                   of such amount attributable to the period before  
10                  the due date for the first installment shall be  
11                  paid annually.

12                  “(B) INTEREST DURING INSTALLMENT PE-  
13                  RIOD.—Interest payable under section 6601 on  
14                  any unpaid portion of such amount attributable  
15                  to any period after such period shall be paid at  
16                  the same time as, and as a part of, each install-  
17                  ment payment of the tax.

18                  “(C) INTEREST IN THE CASE OF CERTAIN  
19                  DEFICIENCIES.—In the case of a deficiency to  
20                  which subsection (e)(3) applies for a taxable  
21                  year which is assessed after the due date for  
22                  the first installment for such year, interest at-  
23                  tributable to the period before such due date,  
24                  and interest assigned under subparagraph (B)  
25                  to any installment the date for payment of

1           which has arrived on or before the date of the  
2           assessment of the deficiency, shall be paid upon  
3           notice and demand from the Secretary.

4           “(e) SPECIAL RULES.—

5           “(1) APPLICATION OF LIMITATION TO PART-  
6           NERS AND S CORPORATION SHAREHOLDERS.—

7           “(A) IN GENERAL.—In applying this sec-  
8           tion to a partnership which is an eligible small  
9           business—

10           “(i) the election under subsection (a)  
11           shall be made by the partnership,

12           “(ii) the amount referred to in sub-  
13           section (b)(1) shall be the sum of each  
14           partner’s tax which is attributable to items  
15           of the partnership and assuming the high-  
16           est marginal rate under section 1, and

17           “(iii) the partnership shall be treated  
18           as the taxpayer referred to in paragraphs  
19           (2) and (3) of subsection (b).

20           “(B) OVERALL LIMITATION ALSO APPLIED  
21           AT PARTNER LEVEL.—In the case of a partner  
22           in a partnership, the limitation under sub-  
23           section (b)(3) shall be applied at the partner-  
24           ship and partner levels.

1           “(C) SIMILAR RULES FOR S CORPORA-  
2           TIONS.—Rules similar to the rules of subpara-  
3           graphs (A) and (B) shall apply to shareholders  
4           in an S corporation.

5           “(2) ACCELERATION OF PAYMENT IN CERTAIN  
6           CASES.—

7           “(A) IN GENERAL.—If—

8                   “(i) the taxpayer ceases to meet the  
9                   requirement of subsection (c)(1)(A), or

10                   “(ii) there is an ownership change  
11                   with respect to the taxpayer,

12           then the extension of time for payment of tax  
13           provided in subsection (a) shall cease to apply,  
14           and the unpaid portion of the tax payable in in-  
15           stallments shall be paid on or before the due  
16           date for filing the return of tax imposed by  
17           chapter 1 for the first taxable year following  
18           such cessation.

19           “(B) OWNERSHIP CHANGE.—For purposes  
20           of subparagraph, in the case of a corporation,  
21           the term ‘ownership change’ has the meaning  
22           given to such term by section 382. Rules simi-  
23           lar to the rules applicable under the preceding  
24           sentence shall apply to a partnership.

1           “(3) PRORATION OF DEFICIENCY TO INSTALL-  
2           MENTS.—Rules similar to the rules of section  
3           6166(e) shall apply for purposes of this section.

4           “(f) GROW ACCOUNT.—For purposes of this sec-  
5           tion—

6           “(1) IN GENERAL.—The term ‘GROW Account’  
7           means a trust created or organized in the United  
8           States for the exclusive benefit of an eligible small  
9           business, but only if the written governing instru-  
10          ment creating the trust meets the following require-  
11          ments:

12                   “(A) No contribution will be accepted for  
13                   any taxable year in excess of the amount al-  
14                   lowed as a deferral under subsection (b) for  
15                   such year.

16                   “(B) The trustee is a bank (as defined in  
17                   section 408(n)) or another person who dem-  
18                   onstrates to the satisfaction of the Secretary  
19                   that the manner in which such person will ad-  
20                   minister the trust will be consistent with the re-  
21                   quirements of this section.

22                   “(C) The assets of the trust consist en-  
23                   tirely of cash or of obligations which have ade-  
24                   quate stated interest (as defined in section

1           1274(c)(2)) and which pay such interest not  
2           less often than annually.

3           “(D) The assets of the trust will not be  
4           commingled with other property except in a  
5           common trust fund or common investment  
6           fund.

7           “(E) Amounts in the trust may be used  
8           only—

9                   “(i) as security for a loan to the busi-  
10                   ness or for repayment of such loan, or

11                   “(ii) to pay the installments under  
12                   this section.

13           “(2) ACCOUNT TAXED AS GRANTOR TRUST.—  
14           The grantor of a GROW Account shall be treated  
15           for purposes of this title as the owner of such Ac-  
16           count and shall be subject to tax thereon in accord-  
17           ance with subpart E of part I of subchapter J of  
18           this chapter (relating to grantors and others treated  
19           as substantial owners).

20           “(3) TIME WHEN PAYMENTS DEEMED MADE.—  
21           For purposes of this section, a taxpayer shall be  
22           deemed to have made a payment to a GROW Ac-  
23           count on the last day of a taxable year if such pay-  
24           ment is made on account of such taxable year and

1 is made within 3½ months after the close of such  
2 taxable year.

3 “(g) DEFINITIONS RELATING TO SALARY MAINTENANCE OF CALLED-UP RESERVISTS.—For purposes of  
4 subsection (d)(1)(C)(iii)—

5  
6 “(1) READY RESERVE/NATIONAL GUARD EMPLOYEE.—  
7

8 “(A) IN GENERAL.—The term ‘Ready Reserve/National Guard employee’ means any employee—  
9  
10

11 “(i) who is a member of the Ready Reserve or of the National Guard, and  
12

13 “(ii) who was an employee of the taxpayer during the 1-year period ending on  
14 the day before the date that the employee  
15 begins qualified active duty.  
16

17 “(B) NATIONAL GUARD.—The term ‘National Guard’ has the meaning given such term  
18 by section 101(c)(1) of title 10, United States  
19 Code.  
20

21 “(C) READY RESERVE.—The term ‘Ready Reserve’ has the meaning given such term by  
22 section 10142 of title 10, United States Code.  
23

24 “(2) QUALIFIED ACTIVE DUTY.—The term  
25 ‘qualified active duty’ means—

1           “(A) active duty under an order or call for  
2 a period in excess of 90 days or for an indefi-  
3 nite period, other than the training duty speci-  
4 fied in—

5                   “(i) section 10147 of title 10, United  
6 States Code (relating to training require-  
7 ments for the Ready Reserve), or

8                   “(ii) section 502(a) of title 32, United  
9 States Code (relating to required drills and  
10 field exercises for the National Guard),

11 in connection with which an employee is entitled  
12 to reemployment rights and other benefits or to  
13 a leave of absence from employment under  
14 chapter 43 of title 38, United States Code, and

15           “(B) hospitalization incident to such active  
16 duty.

17           “(3) ACTIVE DUTY WAGE DIFFERENTIAL.—

18                   “(A) IN GENERAL.—The active duty wage  
19 differential of a Ready Reserve/National Guard  
20 employee for any period of qualified active duty  
21 is the amount equal to the product of—

22                   “(i) the daily wage differential of such  
23 employee for such period, multiplied by

1           “(ii) the number of days that such  
2           employee is on qualified active duty during  
3           such period.

4           “(B) DAILY WAGE DIFFERENTIAL.—For  
5           purposes of subparagraph (A), the daily wage  
6           differential of a Ready Reserve/National Guard  
7           employee for any period is an amount equal to  
8           the excess of—

9                   “(i) such employee’s average daily em-  
10                  ployer-provided compensation for such pe-  
11                  riod, over

12                   “(ii) such employee’s average daily  
13                  military pay for such period.

14           “(C) AVERAGE DAILY EMPLOYER-PRO-  
15           VIDED COMPENSATION.—

16                   “(i) IN GENERAL.—For purposes of  
17                  subparagraph (B), an employee’s average  
18                  daily employer-provided compensation for  
19                  any period is the average daily compensa-  
20                  tion paid by the employer to the employee  
21                  for the 1-year period ending on the day be-  
22                  fore the date that the employee begins  
23                  qualified active duty, adjusted for cost-of-  
24                  living and other increases generally appli-

1 cable to employees of the employer for  
2 such period.

3 “(ii) EMPLOYER-PROVIDED COM-  
4 PENSATION.—The term ‘compensation’  
5 means any remuneration for employment,  
6 whether in cash or in kind, which is allow-  
7 able as a deduction under section  
8 162(a)(1).

9 “(D) AVERAGE DAILY MILITARY PAY.—

10 “(i) IN GENERAL.—For purposes of  
11 subparagraph (B), a Ready Reserve/Na-  
12 tional Guard employee’s average daily mili-  
13 tary pay is the average daily military pay  
14 and allowances received by the employee on  
15 account of the employee’s performance of  
16 qualified active duty during the period.

17 “(ii) MILITARY PAY AND ALLOW-  
18 ANCES.—For purposes of clause (i)—

19 “(I) MILITARY PAY.—The term  
20 ‘military pay’ means pay (as defined  
21 in section 101(21) of title 37, United  
22 States Code).

23 “(II) ALLOWANCES.—The term  
24 ‘allowances’ means the allowances  
25 payable to a member of the Armed

1 Forces of the United States under  
2 chapter 7 of such title.

3 “(h) REPORTS.—The Secretary may require such re-  
4 porting as the Secretary determines to be appropriate to  
5 carry out this section.

6 “(i) APPLICATION OF SECTION.—This section shall  
7 apply to taxes imposed for taxable years beginning after  
8 the date of the enactment of this section and before Janu-  
9 ary 1, 2011.”

10 (b) PRIORITY OF LENDER.—Subsection (b) of section  
11 6323 of such Code is amended by adding at the end the  
12 following new paragraph:

13 “(11) LOANS SECURED BY GROW ACCOUNTS.—  
14 With respect to a GROW account (as defined in sec-  
15 tion 6168(f)) with any bank (as defined in section  
16 408(n)), to the extent of any loan made by such  
17 bank without actual notice or knowledge of the exist-  
18 ence of such lien, as against such bank, if such loan  
19 is secured by such account.”

20 (c) CLERICAL AMENDMENT.—The table of sections  
21 for subchapter B of chapter 62 of such Code is amended  
22 by adding at the end the following new item:

“Sec. 6168. Extension of time for payment of tax for certain small busi-  
nesses.”.

1 (d) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 the date of the enactment of this Act.

4 (e) STUDY BY GENERAL ACCOUNTING OFFICE.—

5 (1) STUDY.—In consultation with the Secretary  
6 of the Treasury, the Comptroller General of the  
7 United States shall undertake a study to evaluate  
8 the applicability (including administrative aspects)  
9 and impact of the GROW America’s Small Business  
10 Act of 2006, including how it affects the capital  
11 funding needs of businesses under the Act and num-  
12 ber of businesses benefitting.

13 (2) REPORT.—Not later than March 31, 2011,  
14 the Comptroller General shall transmit to the Com-  
15 mittee on Ways and Means of the House of Rep-  
16 resentatives and the Committee on Finance of the  
17 Senate a written report presenting the results of the  
18 study conducted pursuant to this subsection, to-  
19 gether with such recommendations for legislative or  
20 administrative changes as the Comptroller General  
21 determines are appropriate.

○