

109TH CONGRESS
1ST SESSION

S. 543

To amend the Internal Revenue Code of 1986 to expand the availability of the cash method of accounting for small businesses, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 7, 2005

Ms. SNOWE 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 expand the availability of the cash method of accounting for small businesses, 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. CLARIFICATION OF CASH ACCOUNTING RULES**
4 **FOR SMALL BUSINESS.**

5 (a) CASH ACCOUNTING PERMITTED.—

6 (1) IN GENERAL.—Section 446 of the Internal
7 Revenue Code of 1986 (relating to general rule for
8 methods of accounting) is amended by adding at the
9 end the following new subsection:

1 “(g) CERTAIN SMALL BUSINESS TAXPAYERS PER-
 2 MITTED TO USE CASH ACCOUNTING METHOD WITHOUT
 3 LIMITATION.—

4 “(1) IN GENERAL.—An eligible taxpayer shall
 5 not be required to use an accrual method of account-
 6 ing for any taxable year.

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

10 “(A) for all prior taxable years beginning
 11 after December 31, 2004, the taxpayer (or any
 12 predecessor) met the gross receipts test of sec-
 13 tion 448(c), and

14 “(B) the taxpayer is not subject to section
 15 447 or 448.”.

16 (2) EXPANSION OF GROSS RECEIPTS TEST.—

17 (A) IN GENERAL.—Paragraph (3) of sec-
 18 tion 448(b) of such Code (relating to entities
 19 with gross receipts of not more than
 20 \$5,000,000) is amended by striking
 21 “\$5,000,000” in the text and in the heading
 22 and inserting “\$10,000,000”.

23 (B) CONFORMING AMENDMENTS.—Section
 24 448(c) of such Code is amended—

1 (i) by striking “\$5,000,000” each
 2 place it appears in the text and in the
 3 heading of paragraph (1) and inserting
 4 “\$10,000,000”, and

5 (ii) by adding at the end the following
 6 new paragraph:

7 “(4) INFLATION ADJUSTMENT.—In the case of
 8 any taxable year beginning in a calendar year after
 9 2005, the dollar amount contained in subsection
 10 (b)(3) and paragraph (1) of this subsection shall be
 11 increased by an amount equal to—

12 “(A) such dollar amount, multiplied by

13 “(B) the cost-of-living adjustment deter-
 14 mined under section 1(f)(3) for the calendar
 15 year in which the taxable year begins, by sub-
 16 stituting ‘calendar year 2004’ for ‘calendar year
 17 1992’ in subparagraph (B) thereof.

18 If any amount as adjusted under this subpara-
 19 graph is not a multiple of \$100,000, such
 20 amount shall be rounded to the nearest multiple
 21 of \$100,000.”.

22 (b) CLARIFICATION OF INVENTORY RULES FOR
 23 SMALL BUSINESS.—

24 (1) IN GENERAL.—Section 471 of the Internal
 25 Revenue Code of 1986 (relating to general rule for

1 inventories) is amended by redesignating subsection
 2 (c) as subsection (d) and by inserting after sub-
 3 section (b) the following new subsection:

4 “(c) SMALL BUSINESS TAXPAYERS NOT REQUIRED
 5 TO USE INVENTORIES.—

6 “(1) IN GENERAL.—A qualified taxpayer shall
 7 not be required to use inventories under this section
 8 for a taxable year.

9 “(2) TREATMENT OF TAXPAYERS NOT USING
 10 INVENTORIES.—If a qualified taxpayer does not use
 11 inventories with respect to any property for any tax-
 12 able year beginning after December 31, 2004, such
 13 property shall be treated as a material or supply
 14 which is not incidental.

15 “(3) QUALIFIED TAXPAYER.—For purposes of
 16 this subsection, the term ‘qualified taxpayer’
 17 means—

18 “(A) any eligible taxpayer (as defined in
 19 section 446(g)(2)), and

20 “(B) any taxpayer described in section
 21 448(b)(3).”.

22 (2) CONFORMING AMENDMENTS.—

23 (A) Subpart D of part II of subchapter E
 24 of chapter 1 of such Code is amended by strik-
 25 ing section 474.

(B) The table of sections for subpart D of part II of subchapter E of chapter 1 of such Code is amended by striking the item relating to section 474.

(c) EFFECTIVE DATE AND SPECIAL RULES.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 2004.

(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;

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

(C) the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 shall be taken into account over a period (not greater than 4 taxable years) beginning with such taxable year.

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