

AMENDMENT**OFFERED BY MR. PAULSEN OF MINNESOTA**

Strike all after the enacting clause and insert the following:

1 **SECTION 1. DEFERRAL OF TAX ON INCOME REINVESTED IN**
2 **A PARTNERSHIP OR S CORPORATION.**

3 (a) IN GENERAL.—Part III of subchapter B of chap-
4 ter 1 of the Internal Revenue Code of 1986 is amended
5 by inserting after section 139C the following new section:

6 **“SEC. 139D. INCOME REINVESTED IN A PARTNERSHIP OR S**
7 **CORPORATION.**

8 “(a) EXCLUSION FROM GROSS INCOME OF PASS-
9 THRU INCOME.—

10 “(1) IN GENERAL.—In the case of an indi-
11 vidual, gross income shall not include—

12 “(A) any specified item of partnership
13 pass-thru income, and

14 “(B) any specified item of S corporation
15 pass-thru income.

16 “(2) LIMITATION.—The aggregate amount of
17 items which may be designated by the taxpayer as
18 specified items under paragraphs (3)(B) and (4)(B)

1 with respect to any taxable year shall not exceed
2 \$250,000 (\$500,000 in the case of a joint return).

3 “(3) SPECIFIED ITEM OF PARTNERSHIP PASS-
4 THRU INCOME.—For purposes of this section, the
5 term ‘specified item of partnership pass-thru income’,
6 means, with respect to any taxable year, any item of
7 income or gain which—

8 “(A) would, but for this section, be taken
9 into account by the taxpayer under section 702
10 for such taxable year, and

11 “(B) is designated by the taxpayer as a
12 specified item for purposes of this section.

13 “(4) SPECIFIED ITEM OF S CORPORATION PASS-
14 THRU INCOME.—For purposes of this section, the
15 term ‘specified item of S corporation pass-thru in-
16 come’ means, with respect to any taxable year, any
17 item of income or gain which—

18 “(A) would, but for this section, be taken
19 into account by the taxpayer under section
20 1366 for such taxable year, and

21 “(B) is designated by the taxpayer as a
22 specified item for purposes of this section.

23 “(b) NO INCREASE IN ADJUSTED BASIS WITH RE-
24 SPECT TO ITEMS EXCLUDED FROM GROSS INCOME.—Any
25 specified item which is not includible in the gross income

1 of an individual under subsection (a) shall not be taken
2 into account in determining the adjusted basis of such in-
3 dividual's interest in the partnership or S corporation with
4 respect to which such item relates.

5 “(c) REGULATIONS.—The Secretary shall prescribe,
6 such regulations or other guidance as may be necessary
7 or appropriate to carry out the purposes of this section.”.

8 (b) CLERICAL AMENDMENT.—The table of sections
9 for part III of subchapter B of chapter 1 of the Internal
10 Revenue Code of 1986 is amended by inserting after the
11 item relating to section 139C the following new item:

“Sec. 139D. Income held in a partnership or S corporation.”.

12 (c) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to taxable years beginning after
14 the date of the enactment of this Act.

