

119TH CONGRESS
1ST SESSION

H. R. 1778

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

IN THE HOUSE OF REPRESENTATIVES

MARCH 3, 2025

Mr. BUCHANAN (for himself, Mr. KELLY of Pennsylvania, Mr. SMITH of Nebraska, Mr. ESTES, Mrs. MILLER of West Virginia, and Mr. MILLER of Ohio) 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 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 2025”.

1 **SEC. 2. SIMPLIFICATION AND EXPANSION OF DEDUCTION**
2 **FOR START-UP AND ORGANIZATIONAL EX-**
3 **PENDITURES.**

4 (a) IN GENERAL.—Section 195 of the Internal Rev-
5 enue Code of 1986 is amended by redesignating sub-
6 sections (c) and (d) as subsections (d) and (e), respec-
7 tively, and by striking all that precedes subsection (d) (as
8 so redesignated) and inserting the following:

9 **“SEC. 195. START-UP AND ORGANIZATIONAL EXPENDI-**
10 **TURES.**

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

14 “(b) ELECTION TO DEDUCT.—

15 “(1) IN GENERAL.—If a taxpayer elects the ap-
16 plication of this subsection with respect to any active
17 trade or business—

18 “(A) the taxpayer shall be allowed a deduc-
19 tion for the taxable year in which such active
20 trade or business begins in an amount equal to
21 the lesser of—

22 “(i) the aggregate amount of start-up
23 and organizational expenditures paid or in-
24 curred in connection with such active trade
25 or business, or

1 “(ii) \$20,000, reduced (but not below
2 zero) by the amount by which such aggre-
3 gate amount exceeds \$120,000, and

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

11 “(2) APPLICATION TO ORGANIZATIONAL EX-
12 PENDITURES.—In the case of organizational expend-
13 itures with respect to any corporation or partner-
14 ship, the active trade or business referred to in para-
15 graph (1) means the first active trade or business
16 carried on by such corporation or partnership.

17 “(3) INFLATION ADJUSTMENT.—In the case of
18 any taxable year beginning after December 31,
19 2026, the \$20,000 and \$120,000 amounts in para-
20 graph (1)(A)(ii) shall each be increased by an
21 amount equal to—

22 “(A) such dollar amount, multiplied by

23 “(B) the cost-of-living adjustment deter-
24 mined under section 1(f)(3) for the calendar
25 year in which the taxable year begins, deter-

1 mined by substituting ‘calendar year 2025’ for
2 ‘calendar year 2016’ in subparagraph (A)(ii)
3 thereof.

4 If any amount as increased under the preceding sen-
5 tence is not a multiple of \$1,000, such amount shall
6 be rounded to the nearest multiple of \$1,000.

7 “(c) ALLOWANCE OF DEDUCTION UPON LIQUIDA-
8 TION OR DISPOSITION.—

9 “(1) LIQUIDATION OF PARTNERSHIP OR COR-
10 PORATION.—If any partnership or corporation is
11 completely liquidated by the taxpayer, any start-up
12 or organizational expenditures paid or incurred in
13 connection with such partnership or corporation
14 which were not allowed as a deduction by reason of
15 this section may be deducted to the extent allowable
16 under section 165.

17 “(2) DISPOSITION OF TRADE OR BUSINESS.—If
18 any trade or business is completely disposed of or
19 discontinued by the taxpayer, any start-up expendi-
20 tures paid or incurred in connection with such trade
21 or business which were not allowed as a deduction
22 by reason of this section (and not taken into account
23 in connection with a liquidation to which paragraph
24 (1) applies) may be deducted to the extent allowable
25 under section 165. For purposes of this paragraph,

1 in the case of any deduction allowed under sub-
2 section (b)(1) with respect to both start-up and or-
3 ganizational expenditures, the amount treated as so
4 allowed with respect to start-up expenditures shall
5 bear the same ratio to such deduction as the start-
6 up expenditures taken into account in determining
7 such deduction bears to the aggregate of the start-
8 up and organizational expenditures so taken into ac-
9 count.”.

10 (b) ORGANIZATIONAL EXPENDITURES.—Section
11 195(d) of such Code, as redesignated by subsection (a),
12 is amended by adding at the end the following new para-
13 graphs:

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

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

19 “(B) is chargeable to capital account, and

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

24 “(4) APPLICATION TO CERTAIN DISREGARDED
25 ENTITIES.—In the case of any entity with a single

1 owner that is disregarded as an entity separate from
 2 its owner, this section shall be applied in the same
 3 manner as if such entity were a corporation.”.

4 (c) ELECTION.—Section 195(e)(2) of such Code, as
 5 redesignated by subsection (a), is amended to read as fol-
 6 lows:

7 “(2) PARTNERSHIPS AND S CORPORATIONS.—In
 8 the case of any partnership or S corporation, the
 9 election under subsection (b) shall be made (and this
 10 section shall be applied) at the entity level.”.

11 (d) CONFORMING AMENDMENTS.—

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

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

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

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

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

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

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

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

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

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

13 (K) Section 1375(b)(1)(B)(i) of such Code is
14 amended by striking “(other than the deduction al-
15 lowed by section 248, relating to organization ex-
16 penditures)”.

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

19 **“SEC. 709. TREATMENT OF SYNDICATION FEES.**

20 “No deduction shall be allowed under this chapter to
21 a partnership or to any partner of the partnership for any
22 amounts paid or incurred to promote the sale of (or to
23 sell) an interest in the partnership.”.

1 (B) The item relating to section 709 in the
 2 table of sections for part I of subchapter K of chap-
 3 ter 1 of such Code is amended to read as follows:

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

4 (3) Section 1202(e)(2)(A) of such Code is
 5 amended by striking “section 195(c)(1)(A)” and in-
 6 serting “section 195(d)(1)(A)”.

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

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

10 (e) EFFECTIVE DATE.—The amendments made by
 11 this section shall apply to expenditures paid or incurred
 12 in connection with active trades or businesses which begin
 13 in taxable years beginning after December 31, 2025.

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

17 (a) APPLICATION TO NET OPERATING LOSSES.—
 18 Section 382(d) of the Internal Revenue Code of 1986 is
 19 amended by adding at the end the following new para-
 20 graph:

21 “(4) EXCEPTION FOR START-UP LOSSES.—

22 “(A) IN GENERAL.—In the case of any net
 23 operating loss carryforward described in para-
 24 graph (1)(A) which arose in a start-up period

1 taxable year, the amount of such net operating
 2 loss carryforward otherwise taken into account
 3 under such paragraph shall be reduced by the
 4 net start-up loss determined with respect to the
 5 trade or business referred to in subparagraph
 6 (B)(i) for such start-up period taxable year.

7 “(B) START-UP PERIOD TAXABLE YEAR.—

8 The term ‘start-up period taxable year’ means
 9 any taxable year of the old loss corporation
 10 which—

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

18 “(ii) ends after January 31, 2026.

19 “(C) NET START-UP LOSS.—

20 “(i) IN GENERAL.—The term ‘net
 21 start-up loss’ means, with respect to any
 22 trade or business referred to in subpara-
 23 graph (B)(i) for any start-up period tax-
 24 able year, the amount which bears the
 25 same ratio (but not greater than 1) to the

1 net operating loss carryforward which
2 arose in such start-up period taxable year
3 as—

4 “(I) the net operating loss (if
5 any) which would have been deter-
6 mined for such start-up period taxable
7 year if only items of income, gain, de-
8 duction, and loss properly allocable to
9 such trade or business were taken into
10 account, bears to

11 “(II) the amount of the net oper-
12 ating loss determined for such start-
13 up period taxable year.

14 “(ii) SPECIAL RULE FOR LAST TAX-
15 ABLE YEAR IN START-UP PERIOD.—In the
16 case of any start-up period taxable year
17 which ends after the close of the 3-year pe-
18 riod described in subparagraph (B)(i) with
19 respect to any trade or business, the net
20 start-up loss with respect to such trade or
21 business for such start-up period taxable
22 year shall be the same proportion of such
23 loss (determined without regard to this
24 clause) as the proportion of such start-up

1 period taxable year which is on or before
2 the last day of such period.

3 “(D) APPLICATION TO NET OPERATING
4 LOSS ARISING IN YEAR OF OWNERSHIP
5 CHANGE.—Subparagraph (A) shall apply to any
6 net operating loss described in paragraph
7 (1)(B) in the same manner as such subpara-
8 graph applies to net operating loss
9 carryforwards described in paragraph (1)(A),
10 but by only taking into account the amount of
11 such net operating loss (and the amount of the
12 net start-up loss) which is allocable under para-
13 graph (1)(B) to the period described in such
14 paragraph. Proper adjustment in the allocation
15 of the net start-up loss under the preceding
16 sentence shall be made in the case of a taxable
17 year to which subparagraph (C)(ii) applies.

18 “(E) APPLICATION TO TAXABLE YEARS
19 WHICH ARE START-UP PERIOD TAXABLE YEARS
20 WITH RESPECT TO MORE THAN 1 TRADE OR
21 BUSINESS.—In the case of any net operating
22 loss carryforward which arose in a taxable year
23 which is a start-up period taxable year with re-
24 spect to more than 1 trade or business—

1 “(i) this paragraph shall be applied
2 separately with respect to each such trade
3 or business, and

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

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

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

16 “(i) MULTIPLE OWNERSHIP
17 CHANGES.—In the case of a 2nd ownership
18 change to which subsection (l)(5)(D) ap-
19 plies, this paragraph shall not apply for
20 purposes of determining the pre-change
21 loss with respect to such 2nd ownership
22 change.

23 “(ii) CERTAIN INSOLVENCY TRANS-
24 ACTIONS.—If subsection (l)(6) applies for
25 purposes of determining the value of the

1 old loss corporation under subsection (e),
2 this paragraph shall not apply.

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

8 “(I) TRANSITION RULE.—This paragraph
9 shall not apply with respect to any trade or
10 business if the date on which such trade or
11 business begins as an active trade or business
12 (as determined under section 195(d)(2) without
13 regard to subparagraph (B) thereof) is on or
14 before January 31, 2026.”.

15 (b) APPLICATION TO EXCESS CREDITS.—Section
16 383 of such Code is amended by redesignating subsection
17 (e) as subsection (f) and by inserting after subsection (d)
18 the following new subsection:

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

20 “(1) IN GENERAL.—In the case of any unused
21 general business credit of the corporation under sec-
22 tion 39 which arose in a start-up period taxable
23 year, the amount of such unused general business
24 credit otherwise taken into account under subsection
25 (a)(2)(A) shall be reduced by the start-up excess

1 credit determined with respect to any trade or busi-
2 ness referred to in section 382(d)(4)(B)(i) for such
3 start-up period taxable year.

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

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

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

21 “(B) the amount of the general business
22 credit determined for such start-up period tax-
23 able year.

24 “(4) APPLICATION OF CERTAIN RULES.—Rules
25 similar to the rules of subparagraphs (C)(ii), (D),

1 (E), and (F) of section 382(d)(4) shall apply for
2 purposes of this subsection.

3 “(5) TRANSITION RULE.—This subsection shall
4 not apply with respect to any trade or business if
5 the date on which such trade or business begins as
6 an active trade or business (as determined under
7 section 195(d)(2) without regard to subparagraph
8 (B) thereof) is on or before January 31, 2026.”.

9 (c) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to taxable years ending after Janu-
11 ary 31, 2025.

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