

103^D CONGRESS
1ST SESSION

H. R. 1353

To amend the Internal Revenue Code of 1986 to provide a partial exclusion of dividends and interest received by individuals.

IN THE HOUSE OF REPRESENTATIVES

MARCH 16, 1993

Mr. SAM JOHNSON of Texas (for himself, Mr. DORNAN, Mr. FIELDS of Texas, Mr. BARTON of Texas, Mr. DOOLITTLE, Mr. ZIMMER, Mr. BONILLA, Mr. EMERSON, Mr. BURTON of Illinois, Mr. SOLOMON, Mr. BAKER of Louisiana, Mr. GALLEGLY, and Mr. DELAY) 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 provide a partial exclusion of dividends and interest received by individuals.

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. EXEMPTION OF CERTAIN INTEREST AND DIVI-**
4 **DEND INCOME FROM TAX.**

5 (a) IN GENERAL.—Part III of subchapter B of chap-
6 ter 1 of the Internal Revenue Code of 1986 (relating to
7 amounts specifically excluded from gross income) is

1 amended by inserting after section 115 the following new
2 section:

3 **“SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS AND INTER-**
4 **EST RECEIVED BY INDIVIDUALS.**

5 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-
6 come does not include the sum of the amounts received
7 during the taxable year by an individual as—

8 “(1) dividends from domestic corporations, or

9 “(2) interest.

10 “(b) LIMITATIONS.—

11 “(1) MAXIMUM AMOUNT.—The aggregate
12 amount excluded under subsection (a) for any tax-
13 able year shall not exceed \$5,000 (\$10,000 in the
14 case of a joint return).

15 “(2) CERTAIN DIVIDENDS EXCLUDED.—Sub-
16 section (a)(1) shall not apply to any dividend from
17 a corporation which, for the taxable year of the cor-
18 poration in which the distribution is made, or for the
19 next preceding taxable year of the corporation, is a
20 corporation exempt from tax under section 501 (re-
21 lating to certain charitable, etc., organization) or
22 section 521 (relating to farmers’ cooperative associa-
23 tions).

24 “(c) SPECIAL RULES.—For purposes of this sec-
25 tion—

1 “(1) DISTRIBUTIONS FROM REGULATED IN-
2 VESTMENT COMPANIES AND REAL ESTATE INVEST-
3 MENT TRUSTS.—Subsection (a) shall apply with re-
4 spect to distributions by—

5 “(A) regulated investment companies to
6 the extent provided in section 854(c), and

7 “(B) real estate investment trusts to the
8 extent provided in section 857(c).

9 “(2) DISTRIBUTIONS BY A TRUST.—For pur-
10 poses of subsection (a), the amount of dividends and
11 interest properly allocable to a beneficiary under sec-
12 tion 652 or 662 shall be deemed to have been re-
13 ceived by the beneficiary ratably on the same date
14 that the dividends and interest were received by the
15 estate or trust.

16 “(3) CERTAIN NONRESIDENT ALIENS INELI-
17 GIBLE FOR EXCLUSION.—In the case of a non-
18 resident alien individual, subsection (a) shall apply
19 only—

20 “(A) in determining the tax imposed for
21 the taxable year pursuant to section 871(b)(1)
22 and only in respect of dividends and interest
23 which are effectively connected with the conduct
24 of a trade or business within the United States,
25 or

1 “(B) in determining the tax imposed for
2 the taxable year pursuant to section 877(b).”

3 (b) CLERICAL AND CONFORMING AMENDMENTS.—

4 (1) The table of sections for part III of sub-
5 chapter B of chapter 1 of such Code is amended by
6 inserting after the item relating to section 115 the
7 following new item:

 “Sec. 116. Partial exclusion of dividends and interest received by
 individuals.”

8 (2) Paragraph (2) of section 265(a) of such
9 Code is amended by inserting before the period at
10 the end thereof the following: “, or to purchase or
11 carry obligations or shares, or to make deposits, to
12 the extent the interest thereon is excludable from
13 gross income under section 116”.

14 (3) Subsection (c) of section 584 of such Code
15 is amended by adding at the end thereof the follow-
16 ing new sentence:

17 “The proportionate share of each participant in the
18 amount of dividends or interest received by the common
19 trust fund and to which section 116 applies shall be con-
20 sidered for purposes of such section as having been re-
21 ceived by such participant.”

22 (4) Subsection (a) of section 643 of such Code
23 is amended by inserting after paragraph (6) the fol-
24 lowing new paragraph:

1 “(7) DIVIDENDS OR INTEREST.—There shall be
2 included the amount of any dividends or interest ex-
3 cluded from gross income pursuant to section 116.”

4 (5) Section 854 of such Code is amended by
5 adding at the end thereof the following new sub-
6 section:

7 “(c) TREATMENT UNDER SECTION 116.—

8 “(1) IN GENERAL.—For purposes of section
9 116, in the case of any dividend (other than a divi-
10 dend described in subsection (a)) received from a
11 regulated investment company which meets the re-
12 quirements of section 852 for the taxable year in
13 which it paid the dividend—

14 “(A) the entire amount of such dividend
15 shall be treated as a dividend if the aggregate
16 dividends and interest received by such com-
17 pany during the taxable year equal or exceed 75
18 percent of its gross income, or

19 “(B) if subparagraph (A) does not apply,
20 a portion of such dividend shall be treated as
21 a dividend (and a portion of such dividend shall
22 be treated as interest) based on the portion of
23 the company’s gross income which consists of
24 aggregate dividends or aggregate interest, as
25 the case may be.

1 For purposes of the preceding sentence, gross in-
2 come and aggregate interest received shall each be
3 reduced by so much of the deduction allowable by
4 section 163 for the taxable year as does not exceed
5 aggregate interest received for the taxable year.

6 “(2) NOTICE TO SHAREHOLDERS.—The amount
7 of any distribution by a regulated investment com-
8 pany which may be taken into account as a dividend
9 for purposes of the exclusion under section 116 shall
10 not exceed the amount so designated by the com-
11 pany in a written notice to its shareholders mailed
12 not later than 45 days after the close of its taxable
13 year.

14 “(3) DEFINITIONS.—For purposes of this sub-
15 section—

16 “(A) The term ‘gross income’ does not in-
17 clude gain from the sale or other disposition of
18 stock or securities.

19 “(B) The term ‘aggregate dividends re-
20 ceived’ includes only dividends received from do-
21 mestic corporations other than dividends de-
22 scribed in section 116(b)(2). In determining the
23 amount of any dividend for purposes of this
24 subparagraph, the rules provided in section

1 116(c)(1) (relating to certain distributions)
2 shall apply.”

3 (6) Subsection (c) of section 857 of such Code
4 is amended to read as follows:

5 “(c) LIMITATIONS APPLICABLE TO DIVIDENDS RE-
6 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

7 “(1) IN GENERAL.—For purposes of section
8 116 (relating to an exclusion for dividends and inter-
9 est received by individuals) and section 243 (relating
10 to deductions for dividends received by corpora-
11 tions), a dividend received from a real estate invest-
12 ment trust which meets the requirements of this
13 part shall not be considered as a dividend.

14 “(2) TREATMENT AS INTEREST.—In the case of
15 a dividend (other than a capital gain dividend, as de-
16 fined in subsection (b)(3)(C)) received from a real
17 estate investment trust which meets the require-
18 ments of this part for the taxable year in which it
19 paid the dividend—

20 “(A) such dividend shall be treated as in-
21 terest if the aggregate interest received by the
22 real estate investment trust for the taxable year
23 equals or exceeds 75 percent of its gross in-
24 come, or

1 “(B) if subparagraph (A) does not apply,
2 the portion of such dividend which bears the
3 same ratio to the amount of such dividend as
4 the aggregate interest received bears to gross
5 income shall be treated as interest.

6 “(3) ADJUSTMENTS TO GROSS INCOME AND AG-
7 GREGATE INTEREST RECEIVED.—For purposes of
8 paragraph (2)—

9 “(A) gross income does not include the net
10 capital gain,

11 “(B) gross income and aggregate interest
12 received shall each be reduced by so much of
13 the deduction allowable by section 163 for the
14 taxable year (other than for interest on mort-
15 gages on real property owned by the real estate
16 investment trust) as does not exceed aggregate
17 interest received by the taxable year, and

18 “(C) gross income shall be reduced by the
19 sum of the taxes imposed by paragraphs (4),
20 (5), and (6) of section 857(b).

21 “(4) NOTICE TO SHAREHOLDERS.—The amount
22 of any distribution by a real estate investment trust
23 which may be taken into account as interest for pur-
24 poses of the exclusion under section 116 shall not
25 exceed the amount so designated by the trust in a

1 written notice to its shareholders mailed not later
2 than 45 days after the close of its taxable year.”

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply with respect to taxable years begin-
5 ning after December 31, 1992.

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